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The Province of Alberta

IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

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WITNESSES

E X H I B I T S

THE NATURAL GAS UTILITIES BOARD

PROVINCE OF ALBERTA

IN THE MATTER OF an Inquiry being conducted by The Natural Gas Utilities Board under the provisions of The Natural Gas Utilities Act.

The Board is conducting an inquiry under the provisions of The Natural Gas Utilities Act for the purpose inter alia of determining a just and reasonable price to be paid to producers of natural gas in the Turner Valley Field, together with other questions such as the cost of transporting natural gas from the well head where it is produced to a scrubbing plant. During the course of the hearing, two incidental applications were made to the Board and since it is possible that some of the parties to the inquiry may desire to carry the Board's decisions on these applications further, it is desirable that a general preliminary statement should be made.

The Turner Valley Field is divided into two parts, viz., a gas zone (known as the gas cap) where the wells produce wet natural gas from which natural gasoline can be recovered, and an oil zone where the wells produce crude oil and wet natural gas.

The Petroleum and Natural Gas Conservation Board assigns to wells in the field an "allowable" which represents the maximum amount of gas which maybe withdrawn from the reservoir by the owner of each well during a stated period. The position at the moment is that if every well in the field produced its allowable the total production would exceed the market demand.

For the purpose of conserving excess gas, the Board has power

to make orders, to compel the owners of wells and the proprietors of pipe lines and scrubbing plants, to return this excess gas to the underground formation. During certain months of the year, the oil zone alone produces gas in excess of market demand and since it is necessary to produce oil, natural gas - the lifting power - must be produced, arrangements and installations have already been made whereby that excess gas is now being returned to the reservoir. It would be wrong to produce gas from gas cap wells during these months only to return it to the reservoir again and so, except in peak load periods, gas cap gas is conserved, subject to such compensation as may be allowed to the owners of the wells who are not permitted to produce their "allowable".

Gas when produced is transported through pipe lines to absorption plants where the natural gasoline is recovered - thence market gas is transported to a scrubbing plant for the removal of sulphuretted hydrogen while surplus over market demand is returned to the formation without having been scrubbed. The Board is required to fix the price to be paid for gas which goes to the market, another price for gas which conserved or not produced, and, it may be, will require to fix another price for gas returned to the formation. Collateral problems arise, such as the apportionment of the cost of transporting gas from the well-head to the absorption plant and many others which need not be discussed here. The evidence to date is incomplete so that the Board has not reached a conclusion on any of the various issues. It is quite clear that the Board must first determine the price to be paid for natural gas at the well-head and finally, having had due regard to all intermediate relevant factors, must determine the price to be paid by The Canadian Western Natural Gas, Light, Heat and Power Company Limited (hereinafter called

"the Gas Company") for the purified gas which it sells to the ultimate consumer.

At the hearing a substantial majority of the gas producers, who are vitally interested in these various prices, are represented by Mr. D. P. McDonald. He has made an application to the Board (and Mr. E. L. Harvie, K.C., Counsel for the British American Gas Utilities Limited joins with him in the application), in which he asks that the books of the Gas Company be made available to him and to all other parties concerned in the hearing, and in particular he asks for:-

(a) Balance Sheets of the Gas Company for the years 1939 to 1944, inclusive;

(b) Profit and Loss Accounts for the same period;

(c) Statements of gas sales from 1932 to 1944, inclusive, by classifications, viz., domestic, commercial and industrial;

(d) A statement of gas revenues for the same period classified as above.

(e) Statements of operating expenses for the same period;

(f) Particulars of the company's rate base as determined by The Public Utilities Board in 1932, brought down to date by the addition of capital items and the deduction of depreciation or amortization;

(g) Rate of return earned by the company on its rate base in each of these years.

Mr. McDonald argues by reference to various sections of The

Natural Gas Utilities Act that the Gas Company is subject to the jurisdiction of this Board and that it is bound by any order issued by the Board. It is clear that this Board has jurisdiction over the Gas Company with respect to its main transmission lines from Turner Valley to the limits of the City of Calgary; it, however, has no jurisdiction over the Gas Company's rights to issue securities or to deal with its properties; it has jurisdiction over the price which the Gas Company must pay for that gas which it purchases for distribution but has no jurisdiction over the rates to be charged by the Gas Company to the consumer. The whole tenor of The Natural Gas Utilities Act is directed towards the conservation of gas after it has been produced and, since some gas must be produced, the collateral questions of its disposal and the price thereof arise. If the Board has any jurisdiction over the Gas Company, that jurisdiction can only arise because of the definition of "pipe line" in Section 2, Subsection (h) of the Act. If it was intended that the Board should have general jurisdiction over the Gas Company then it was surely unnecessary for the Legislature to have amended the definition of "pipe line" by the insertion of the following words:

> "including any pipe line used for the transporting of gas from any field or area where such gas is produced to or through any municipality, but excluding any distribution system used for the distribution of any such gas to the consumers in any such municipality, and includes all property of any kind....."

In the Board's opinion, these words were inserted so as to make it abundantly clear that the Board had jurisdiction over the transportation lines.

The Public Utilities Act confers exclusive jurisdiction

over a public utility such as the Gas Company on the Board constituted under that Act and that exclusive jurisdiction relating to a type of public utility as defined therein cannot be ousted by the general provisions of another Statute. If the exclusive jurisdiction conferred by The Public Utilities Act is to be ousted or modified by the Natural Gas Utilities Act, there must be clear specific language in the Statute to achieve that purpose.

This Board agrees that the general jurisdiction of The Public Utilities Act over public utilities such as the Gas Company is modified by The Natural Gas Utilities Act so far as main transportation pipe lines are concerned but in other instances the exclusive jurisdiction of The Public Utilities Board is specifically preserved. It seems to the Board that the definition of "pipe line" in The Natural Gas Utilities Act clearly refers to field lines, to field operations and to main transportation lines but does not in any other way or any other degree refer to the distribution lines of a retail company.

Mr. McDonald argues that because of the provisions of Section 67 of The Natural Gas Utilities Act, this Board can review the terms of any agreement, e.g., the agreement under which the Madison Natural Gas Company Limited sells its product to the Gas Company, and deduces inferentially that this Board has jurisdiction over the Gas Company. The Board is of the opinion that its only function in this respect is to fix the price which Madison can charge the Gas Company for its supplies of gas. This viewpoint is strengthened by the provisions of Subsection (4) of the same section which expressly excludes franchises and the like contracts which deal with the distribution of gas to the ultimate consumer, The Board must therefore hold that it has no general jurisdiction over the Gas Company and that it cannot make the

order asked on the grounds of jurisdiction.

On the other hand, the Gas Company, being vitally interested in the price of gas, has appeared at the hearing, has cross-examined witnesses who gave evidence for parties in opposing and in common interest, and has adduced evidence on its own account.

As already pointed out, one starting point of the Board's inquiry must of necessity be the well-head piice. How is that price to be determined? The Statute states that the price is to be just and reasonable. What yardstick is to be used and how are the words "just and reasonable" to be construed? Is that term to be applied to the producers alone or must consideration be given to those companies who have expended large sums of money on machinery and pipe lines - under the order of the Board - so as to effectuate the purposes of the Act? Is the Board to fix a price which although just and reasonable to the producers may be unjust and unreasonable to the other public utilities in the field? Is the Board to fix a price which is just and reasonable to the producers and to the utility companies operating in the field but which may prove to be unjust and unreasonable to the Gas Company or to the ultimate consumer or to both? It might happen that the price fixed could result in the Gas Company seeking other sources of supply and the evidence before the Board indicates that there are such sources available.

Is a well-head price to be fixed for each individual well based upon public utility principles, namely, the cost of the well; the operating costs thereof, including either a depletion allowance for gas and oil or both; the revenue already obtained, together with a consideration of potential future production? If not, is the price to be fixed on a theoretical basis of unitization of the whole field or sections of the field with the application thereto

of the factors above mentioned? Is the price to be fixed on some other principle or on some arbitrary basis? No matter what the basis, the cost to the Gas Company will be the well-head price plus all other intermediate costs incurred up to the point where delivery is made to the Gas Company.

Is the price to be fixed with relationship to the ability of the Gas Company to pay as disclosed by its past financial performance? Is the price to be a competitive price with relation to the cost of alternate fuels in the domestic market? If so, the well-head price would be the related competing alternate fuel price in Calgary less the cost of scrubbing gas and transporting it from the well-head to Calgary. It may be that there are other bases and other factors to which consideration could be given in arriving at a just and reasonable price. In any case, the general direction that the price is to be just and reasonable requires the Board in justice to all parties to explore every possible source of information, every principle upon which the well-head price may be fixed and even must consider the repercussions which the fixed price may have upon the many parties who may be affected by that price. The Board must hold that the information asked for is relevant to the inquiry.

Under Section 19, Subsection (8), the Board has all such powers, rights and privileges as are vested in the Supreme Court of Alberta as respects the production and inspection of documents. In Subsection (9)of the same section, the Board or any person authorized by the Board may:

(a) .....

(b) .....

(c) require the production of all books, plans, specifications, drawings and documents;

(d) administer oaths, affirmations or declarations, and shall have the like powers as are vested in the Supreme Court to summon witnesses, enforce their attendance, and compel them to give evidence and produce the books, plans, specifications, drawings and documents, which it or he may require them to produce.

Having determined that the information asked for by Mr. McDonald is relevant to the issue under discussion, and since that information may be required by the Board to enable it to reach a proper conclusion, the Board is of the opinion that the information asked for should be given. It, however, considers that care should be taken to prevent any inspection of the company's books being used for the purposes of a general "fishing" expedition. The Board's Order, therefore, will be and IT IS HEREBY ORDERED that Mr. R. Winslow Hamilton, a member of the firm of Winspear, Hamilton, Anderson & Company, Auditors of the Board, be and he is hereby authorized to require the production by The Canadian Western Natural Gas, Light, Heat and Power Company Limited of all books and documents which will disclose the information asked for as set out herein and that he have all the powers which are conferred upon the Board as defined by Section 19, Subsection (9), Clauses (c) and (d), of The Natural Gas Utilities Act.

At another stage of the hearing, Mr. L. H. Fenerty, K.C., acting for the City of Calgary, during the cross-examination of Mr. R. D. Mercer, Secretary of Royalite Oil Company Limited (hereinafter called "Royalite"), asked that the witness produce certain financial and other statements for the years 1942 and 1943. These statements relate to the costs and the results of Royalite's operations for these two years,

Mr. Mercer was then giving evidence inter alia as to the proper proportion which Royalite considered it should pay for the service rendered by Madison in transporting gas from the well-head to the absorption plant.

Madison Natural Gas Company Limited (hereinafter refferred to as "Madison") is a wholly owned subsidiary of Royalite which operated several divisions, namely, oil and gas, production and sale, natural gasoline extraction, water, power, and oil transportation by pipe line. As a result of the recommendations made by the late The Honourable Mr. Justice McGillivray, in 1939 Royalite procured the incorporation of The Valley Pipe Line Company Limited, a wholly owned subsidiary which took over all oil pipe line transportation operations. Immediately prior to and perhaps in anticipation of the enactment of The Natural Gas Utilities Act, Royalite procured the incorporation of Madison which took over Royalite's gas gathering system, its scrubbing, water and power plants. Royalite continues to produce oil and gas, operates an absorption plant for the recovery of natural gasoline and it proposes to store in its gas cap gas produced from the central and north portion of the field in excess of market demand. Royalite therefore is a public utility and subject to the jurisdiction of this Board in that it owns gas wells and produces natural gas. On this aspect of the hearing, the Board is called upon to fix just and reasonable prices for the transportation of gas in the field, for the scrubbing of gas and for the storage of gas.

In its integrated operations, Royalite kept records relating to each of its several divisions but of necessity there were many items in its operating costs which could not be charged specifically to any one division and these general costs were allocated to the various divisions, in such proportion as the

management thought proper. In its submissions to the Board in this inquiry, Madison has given estimates of its operating costs, which costs will have a direct bearing upon the just and reasonable prices which the Board is called upon to determine, including the just and reasonable price for gas at the well-head, and the allocation (if any) of the cost of transporting wet gas from the well-head to the absorption plant.

Mr. Fenerty contends that he is entitled to have the books and records produced and that he is entitled to cross-examine the witness Mercer on Royalite's books, records and statements and thereby test the accuracy of the evidence placed before the Board upon which it is to determine the just and reasonable prices to be allowed to Madison for the various services which it is to perform. The Board assumes that the service formerly given by the Royalite power and water plants to its various divisions was allocated to those divisions so that today a comparison of the rates formerly charged to those divisions with the rates which Madison now proposes to charge the remaining divisions seems to the Board to be relevant to the inquiry. If that is correct, then the method of allocating general expenses by Royalite in the past is equally relevant.

Statements were prepared by Royalite each year for internal company purposes, showing the final result of the operation of each division and the allocation of general items of expenses, and the Board is asked to order the production of these statements.

Mr. Fenerty puts his application on the ground that he is entitled to test the accuracy of the evidence given by Madison and the evidence given by Mr. Mercer as to the charges for the service which Madison will perform for Royalite in transporting

gas from the well-head to the absorption plant, by comparing that evidence with the factual evidence which can be found in Royalite's books and in the statements above referred to. The witness is the Secretary of Royalite and has those books and those statements in his custody.

Mr. Chambers for Royalite says that the order which Mr. Fenerty asks for would not give him the information that he desires unless the Board should order the production of all of Royalite's books. He says that the Board has no jurisdiction to make such an order since the books and records contain records of past years and at a time when Royalite was not a public utility as defined by The Natural Gas Utilities Act.

He suggests that the Board's Auditor can be appointed to secure the information but he also suggests that this having been done, the Board has no right to use the material so secured. He contends that the Board has only such powers as are given to it by the Statute. With that statement the Board agrees but it has been said by high authority that an administrative tribunal must conduct all of its proceedings according to the principles of natural justice. One of these principles is that all parties must be heard in the presence of each other and that all parties must be permitted the right of cross-examination. The Act makes no such declaration nor does it confer such a power but, in the Board's opinion, it must, in carrying out its functions, do so with due regard to these principles. The Board agrees that it has no authority or jurisdiction over Royalite's past operations - it cannot say for instance that Royalite made too much money or did not make enough nor can it say that as a result of what happened before the enactment of The Natural Gas Utilities Act, it can decrease or increase the Madison rate base because of financial

results. The Board does not suggest that it has any such power. The Board, however, believes that it has the inherent power to permit cross-examination with respect to items which are relevant to the issues being tried. No authority is required for the statement that some of the objects of cross-examination are to test or to qualify evidence given at a trial or at a hearing, or that cross-examination is to be restricted to matters which have been brought out in direct examination. Madison and Royalite have adduced evidence as to certain estimated costs and in order to test or to qualify that evidence, a witness is asked to produce books and documents in his possession which contain factual evidence as to those costs at a time when the operations in issue were being conducted by Royalite alone. In computing a rate base for Madison it became necessary for witnesses to secure from Royalite's books information required to enable the Board to give consideration to the many factors which must go to the making of a rate base. Why a different principle should apply with respect to operating costs is difficult for the Board to understand.

The right which Mr. Fenerty asks is one that he is entitled to and the information which may be elicited by his cross-examination may be and in all probability will be valuable to the Board in its determination of "just and reasonable" prices and rates. The severance of the Royalite gas division through the creation of Madison does not confer upon the parent company an immunity which it would not otherwise possess. The Board, therefore, directs that Mr. Mercer submit to cross-examination with respect to any matters which are relevant to the subject of the present inquiry and in particular that he submit to cross-examination with relation to the operating costs estimated by Madison as compared with the actual operating costs of Royalite

relating to those operations which are now carried on by Madison, and with respect to the allocation by Royalite of costs common to all its operations before the severance of the gas division. Mr. Mercer will also be required to produce all of Royalite's books, financial statements and internal statements from which factual evidence may be secured for the purposes already mentioned. Again the Board wishes to point out that the production of these books and other documents is not to be used by any party as a general "fishing" expedition and that cross-examination thereon must be limited to matters which are relevant to the issues under discussion.

DATED at Edmonton, in the Province of Alberta, this 27th day of September, A.D. 1945.

THE NATURAL GAS UTILITIES BOARD,

(SGD.) G. M. BLACKSTOCK,
CHAIRMAN.

Certified a true copy,
"G. A. Thibault"
Secretary.

(SEAL)

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VOLUME 46

9.30 A.M.Session,
October 9th, 1945.

THE CHAIRMAN: Mr. McDonald, I understand you want to cross-examine Mr. Smith on his affidavit this morning?

MR. McDONALD: Yes, Mr. Chairman.

FREDERICK ASHBEY SMITH, having been first duly sworn, cross-examined by Mr. McDonald, testified as follows:-

Q Mr. Smith, you are controller of the Canadian Western Natural Gas, Light, Heat & Power Company?

A I am.

Q And Chief Accounting officer of the Company?

A Yes.

Q You executed an affidavit dated the 1st day of October, 1945, filed by Counsel for the Gas Company?

A I did.

Q Now I note in your affidavit, Mr. Smith, you say:

> "the books of account of the said Company are kept in accordance with the plan laid down by The National Association of Railroad and Utilities Commissions, and have been kept during all the period during which the Board of Public Utility Commissioners has had jurisdiction over the operations of the Company, either under that system or under the plan laid down by the Pennsylvania Public Service Commission."

Now at what date were the books of the Company first set up under the National Association of Railroad and Utilities Commissioners?

A I think that would be 1926, Mr. McDonald.

Q And on what date was the change over to the Pennsylvania Public Service Commission?

A 1932. I might just add there, the only difference is that the N.A.R.U.C. gives us a few more accounts, the same number

but they are extended out just a little more.

Q And that was commencing December 31st, 1932?

A January 1st, 1932.

Q Now on that date also there became effective a new rate base for the Gas Company?

MR. STEER: Beg pardon?

Q MR. McDONALD: There became effecfive a new rate base for the Gas Company?

A I cannot answer that.

Q Or an adjusted rate base?

A That I cannot even say, I cannot say that, I do not remember offhand.

Q Well what I had in mind was this, that in 1931 there was a hearing?

A Yes.

Q At the City of Calgary by the Public Utilities Commission for the purpose of considering the matter of rates in the City of Calgary for gas sold to the consumers.

MR. STEER: Now, Mr. Chairman, I submit that question has no bearing on what is in this affidavit.

THE CHAIRMAn: Quite.

MR. STEER: Then I submit my friend is not cross-examining on the affidavit.

THE CHAIRMAN: He is limited to the affidavit.

MR. McDONALD: Well, Mr. Chairman, we have a man who comes in and says that he has a particular system of accounting. Now I want to know how he sets up those accounts and what they are.

THE CHAIRMAN: You had better ask him if he set them up first.

MR. McDONALD: Yes, I will do that.

Q MR. McDONALD: Did you set up these accounts, Mr. Smith?

A Mr. McDonald, I might make it quite clear to you, the Pennsylvania system uses exactly the same numbers as, - there are the same account numbers exactly in the N.A.R.U.C. system as in the Pennsylvania system. The only thing the N.A.R.U.C. classification gave us more accounts and that is the only difference. There was no change in the extended accounts.

Q Well now then since I am not an accountant, I do not know what the N.A.R.U.C. accounts are?

THE CHAIRMAN: It seems to me, Mr. McDonald, there is a very simple question you can ask him arising out of the affidavit and that may open the door that you wish opened. From the books of the Company so kept is it possible to ascertain the costs of the operation of any particular portion of the Company s system, and if he says it is not, then you ask him why not.

MR. McDONALD: I am coming to that.

Q MR. McDONALD: Well now, this system,.....

THE CHAIRMAN: Mr. McDonald, I do not want to interrupt you, but I do not want to start another hearing in the midst of this present hearing.

MR. McDONALD: I was not making myself clear, Mr. Chairman. I have given this matter serious consideration and I intend to conduct my cross-examination within bounds, but I do want to have the privilege of being reasonably free in my examination. Now I will do my best to stay within the terms of the affidavit.

Q MR. McDONALD: Mr. Smith, in this system of

accounting you make an annual statement up, you take off an annual statement?

A Yes.

Q At December 31st of any year?

A Yes.

Q And at the end of the year I take it you apportion amortization, and other expenses?

A No sir.

Q Well now then.....

A We do not apportion them.

Q You do not apportion them?

A No sir.

Q Well now will you describe to me briefly just how you set up the investment in the Company, how is it set up?

A As the capital charges are made, Mr. McDonald, during each year they are sharged to the appropriate capital account.

Q Now when the accounts were set up were there any items set up to show the differentiation between investment in transmission lines and distribution lines, between transmission lines and the distribution system?

A In the Capital Account, yes.

Q Yes.

A Yes.

Q And the transmission lines are segregated in the different items?

A The transmission lines?

Q The transmission lines?

A Yes, in the Capital Account, yes.

Q Now is there any segregating of operating costs between distribution and transmission?

A Between distribution and transmission, yes.

Q Now in your capital account, Mr. Smith, you started at some date in 1926 for capital investment, being the original investment in say the transmission lines, is that so?

A Yes.

Q And then there has been an amortization charge against that, booked against that investment in each year.

MR. STEER: Mr. Chairman, is this relevant, I submit not.

THE CHAIRMAN: I will be very frank in saying, Mr. Steer, that I have not heard the question. I was thinking of something else.

MR. STEER: Mr. McDonald is cross-examining the witness on the amortization fund of this Company and I submit he has no right to do so.

MR. McDONALD: Would you read the question?

REPORTER READING: "Q And then there has been an amortization charge against that, booked against that investment in each year?"

THE CHAIRMAN: Well that will depend now on whether the amortization is charged against the system as a whole or whether each year against the separate capital accounts. Now you are dealing with the transmission lines, that is what you are at now?

MR. McDONALD: Yes.

THE CHAIRMAN: Now, Mr. Smith says there are separate capital accounts for the transmission lines; another question you might ask, is there a separate transmission account for the transmission line between Turner Valley and Calgary, and another for the line between Calgary and the next point, High

River, I imagine it is, is there a separate capital account between all the different parts of the system, and then, what I mean is if there is a separate capital account for the line from Calgary to Turner Valley, then proceed with that, Mr. McDonald.

MR. McDONALD: Yes, except I would like an answer to my last question, that is, amortization is booked, recorded, against this capital investment in each year?

A Yes.

Q Now there is a transmission line.....

Q THE CHAIRMAN: In a lump sum?

A It is charged in the Profit and Loss Account in one lump sum.

Q MR. McDONALD: It is segregated?

A Yes.

Q Against each individual line ?

A Yes.

Q Now we will get down to cases then, the Turner Valley is a six and eight inch line?

A Yes.

Q Now in your accounts that is a segregated item?

A Yes, in the capital account.

Q I am speaking of the capital account?

A Yes.

Q And I suggewt to you that there is an allowance, that line is added at the investment cost on whatever valuation was established in 1926, or whenever it was built, and there is an allowance for salvage?

A Yes.

Q And the line to be amortized on a basis of a certain number of years?

A That is right, but you understand during that time there have been changes.

Q There have been changes?

A Yes.

Q Can you tell me those, has that been completely amortized?

MR. STEER: I object to that, Mr. Chairman. On this motion this affidavit was sworn and it sets out two or three specific things, it says that the books of account are kep in a certain way, it says that from the books of the Company as so kept it is not possible to ascertain costs of operation of any portion of the Company's system and it says further that if that is required the Board of Public Utility Commissioners or the Board having jurisdiction, would then have to give directions. Now those are the things, in my submission, on which my learned friend has a right to cross-examine and no more, and whether or not any particular piece of line or whether or not the whole system has been completely amortized has no relevancy in my submission to any matter contained in that affidavit.

THE CHAIRMAN: Oh, I imagine the answer to the question is "No", because with additions each year the depreciation, - no system ever becomes completely amortized unless the system is dead.

Q MR. McDONALD: Now let us deal with the additions, have you added capital additions to that line each year?

A Pardon?

Q Do you add capital additions to your six and eight inch lines ?

A If any were made?

Q Yes?

A If any were made and I presume they were.

Q Well now, we will just go on, there is the Turner Valley ten inch line in your accounting?

A Yes.

Q And similarly you have it booked in the same way as the six and eight inch lines?

A Yes.

Q The item of investment in that particular line is a separate item?

A Yes.

Q With allowance for salvage and amortization?

A Yes.

Q And that has been carried out?

A Yes.

Q And I presume that varies too with the question of the length of life of the line?

A Yes.

Q Now there is a Turner Valley twelve inch line?

A Yes.

Q And the same remarks apply to it?

A It is six, eight and ten inch.

MR.HARVIE: A little louder please, we cannot hear you.

WITNESS: You are dealing with how many lines in Turner Valley?

Q The six and eight and ten inch?

A Yes.

Q Ten inch and fourteen inch lines, is it?

A There are three lines, yes.

Q And then the other lines in the ssytem, the capital investment will be recorded in the same way?

A Correct.

Q There is the main line which is divided, I believe, on your records, between Lethbridge and Calgary, or Lethbridge and, - or Bow Island and Calgary?

A That is right.

Q And the Foremost line separate?

A Right.

Q Now then you mentioned, Mr.Smith, that operating expenses of the transmission line were carried as one item?

A Right.

Q Now does that apply to all lines in the system?

A Correct.

Q Have you segregated it down to the individual lines that I have mentioned?

A No sir.

Q Now have you an item in your accounts of what might be called "Maintenance Expense", or "Line Maintenance Reserve"?

A Transmission line maintenance?

Q Yes?

A All carried in one account, the transmission lines.

Q Now my understanding is that that account includes both ordinary repairs and replacements, and the capital maintenance charge, to operating expenses each year, am I correct in that?

A There might be some replacements, yes, Mr. McDonald.

Q And under the system of accounts you mention here, which you mention in your affidavit, there has been set up a Maintenance Reserve Account in each year for the purpose of taking care of additions and replacements in the transmission lines?

A I do not know that, Mr. McDonald.

Q What have you to say in regard to general costs and distribution? Are the items segregated between distribution and transmission?

A No.

Q Now, Mr.Smith, can you tell me what is the real difference which you refer to in your statement or in your affidavit that it is "not possible to ascertain the costs of the operation of any particular portion of the Company's system."

A That all the work, all work on all transmission lines is charged to the transmission lines expense or operating expense. There is no segregation of the work on each individual line kept at all.

Q Now you were speaking of operating expense?

A I am speaking of operating expense; some of them, there is the odd piece of work that you might be able to find that because the engineering department has kept the costs of that particular work, and you might say "Well that belongs to the Turner Valley fourteen inch line", but generally speaking there is no record in the accounting kept of any work done, it is just charged by the engineers to the tramsission lines, either operating or maintenance.

Q Can you give me an idea of how mucy money is involved in the transmission expenses?

A I am sorry, I cannot tell you, I cannot tell you offhand. I have so many figures to carry in my mind. It might be fifty thousand dollars or sixty thousand dollars, I do not know offhand.

Q And it might be close to thirty thousand?

A Well that I cannot say but I would not think so.

Q Well to take one year, say 1944, is it much of a job to go

into that expense item and segregate these items?

A Yes, Mr. McDonald, because we have not the information.

Q You have not the information?

A No.

Q You mean the original entries?

A The original entries to us from the Engineering Department do not contain the information as to where the work was performed.

(Page 3563 omitted, Go to Page 3564).

Q Now all of the gas supplied your system comes from Turner Valley except that there may be two or three days in the year ?

A Yes, that is right.

MR. STEER: This question is not raised, Mr. Chairman, in Mr. Smith's Affidavit.

MR. McDONALD: I agree with you Mr. Steer, that is right.

THE CHAIRMAN: The application before the Board is that an item be added to the Agenda and that item is related to the transmission lines between Calgary and Turner Valley and to the extent that the Affidavit touches upon those questions, that is all you are entitled to cross-examine on.

MR. HARVIE: I do not know that there is anything in the application, Mr. Chairman, that limits this to the lines between Turner Valley and Calgary. They might affect the rates.

THE CHAIRMAN: The Affidavit would apply to Mr. McDonald's application and I am not going to open the door wide open beyond the application made.

MR. HARVIE: I am not suggesting that be done. All I am suggesting is that I understood you to say that the lines between Turner Valley and Calgary were the only ones pertinent to this application. My suggestion is that maybe is the case but what the application is for that all lines either those or others be made available, that is information with respect to -

MR. CHAMBERS: That was my understanding. I have not the notice of motion of Mr. McDonald before me, but my recollection or understanding was that subject to Mr. McDonald's motion was that in the matter of the Gas Company's

transmission all of them were matters relevant for consideration by this Board in view of the definitions of what is a public utility in Section 2 of this Act as amended in 1945. Now I took it for granted that his application to add to the Agenda would cover all transmission lines of this Company.

THE CHAIRMAN: We have two items and then an alternative one. Which do you want, Mr. McDonald. Let us know what we are dealing with. Is it just a roving expedition to see what you can find out because that is what it sounds like to me.

MR. McDONALD: No, Mr. Chairman, No. 1 item is price to be paid at such points as gas enters the system of any Municipality, which of course means the price at the end of the transmission lines wherever the transmission line may go and includes every point where the Gas Company sells gas to a Municipality and the price paid for the gas by the ultimate consumer and instead the Board if it sees fit, to fix the rate for transmitting that gas. Then I think the alternative rates that would be considered by the Board, that is to the different points to which sales are made and including in (d) the rate the point at which gas is delivered by the compressor station at Bow Island. I think the more practical approach to the matter is the one I have adopted. As I understand it when the interruption was made I had asked the witness in regard to the source of the supply of gas and he has said that the gas is supplied from Turner Valley except for one or two days in the year when emergencies arise when gas is supplied from some other field.

Q MR. McDONALD: Now Mr. Smith you told me that the general administrative charges were not segregated ?

A No sir.

Q As between transmission and distribution ?

A No sir.

Q Nor for general expenses ?

A Nor for general expenses, such as west end shop, store expense and nothing like that at all.

Q That is units in the gas plant which are used both for distribution and transmission ?

A True.

Q I take it from your Affidavit that you would require some direction as to the principles you would follow in making that allocation if you were to make it ?

A I should think it would be proper.

Q Now Mr. Smith let us deal with the other side of these accounts and beginning with cost. Now under the system of accounting you maintain, do you allocate or do they contain an allocation of sales of gas as between types or classifications of consumers ?

A They do.

Q THE CHAIRMAN: What has that got to do with transmission lines ?

MR. McDONALD: It has simply to do, Mr. Chairman, with this, it might be quite possible that gas should be transported in the transmission lines and a proportion goes to one purchaser at one price and then a proportion goes to another purchaser at another price.

THE CHAIRMAN: Then Mr. McDonald, the question you are now asking goes to the other application. The Board made an order that the books were to be produced. That order is being appealed and I am not going to allow any questions at all that are going to interfere with that application or allow you to

build up on this application the case on the appeal concerning the other application.

MR. HARVIE: Has the Board received notice of appeal of that Order. We have not.

MR. STEER: You will in due course.

MR. McDONALD: Now Mr. Chairman I appreciate your attitude in this regard, that this man has sworn he has certain statements, that he has a certain system of accounting. Now I have made an application for the rate which this Board is going to fix, or this question of fixing a rate should be set down for hearing, and he comes in and says I cannot make that out because I cannot make the statement. I think it is pertinent to my allegation to have an answer to that question.

THE CHAIRMAN: He can answer it if he likes. If he does not want to I am not going to tell him he must.

MR. STEER: I advise him not to answer.

MR. McDONALD: I see. Mr. Chairman I find in paragraph 3 of this Affidavit this statement,"the operations of the Company are carried on as a unit. The prices charged for natural gas sold are the same at all points on the Company's system which are connected with its main transmission lines".
In view of that statement I think that question is relevant to the purposes of this examination.

THE CHAIRMAN: You can ask him if there is a different price charged in one place to that charged in another place and a simple answer to that is you have filed with you and you can get it any time the copy of the last Order made by the Board in 1939 which will give you what the rates are for all communities, And all the classes of customers and the only question left is, is there any variation and Mr. Smith will tell you yes there is one in favour of the Canning Company in

Lethbridge.

MR. McDONALD: That might answer my question, Mr. Chairman.

THE CHAIRMAN: There is another variation that I hope you are thinking of Mr. McDonald, and I mentioned one. There is another one.

MR. McDONALD: That is all the questions I have Mr. Chairman.

MR. HARVIE: Mr. Chairman, as you will no doubt remember at the beginning of the hearing I went on record as representing the British American Utilities Company and watching for the British American Oil Company, and my partner went on record as representing the British American Oil Company in connection with this. As I think this is an application chiefly pertinent to the British American Oil Company Limited as a producer, I have asked him to appear on this phase of it.

CROSS-EXAMINED BY MR. ARNOLD:

Q Mr. Smith as I understand it -

MR. STEER: Mr. Chairman, my learned friend will pardon me. This application as I understand it was an application made by Messrs Fisher & McDonald on behalf of the Producers' Committee of the Alberta Petroleum Association. That is the application which we are answering. We filed Affidavits in answer to that application and in the normal course Mr. Smith and Mr. Brownie would appear before the Bar of the Court to be cross-examined on that Affidavit by Counsel for the Applicant. I submit no one else has any right.

THE CHAIRMAN: You may be right Mr. Steer, but as Chairman of an Administrative Tribunal I am not going to take the responsibility of denying any party to the Hearing the right

of cross-examination.

MR. STEER: Mr. Chairman, it did enter my mind that I should point out at the opening of this morning's session just what we were doing. Counsel for this Producers' Committee is certainly entitled to cross-examine on these Affidavits, but as I point out again normally that would not take place here but for convenience I said nothing about it but I must now register a most strenuous objection to that procedure on my part, opening the door to cross-examination to anybody other than those legally entitled to cross-examine and I submit nobody is entitled to cross-examine these witnesses except my learned friend Mr. McDonald.

THE CHAIRMAN: Nevertheless I am going to permit it, but again I want it kept within the boundaries of the Affidavits and that is to find out why the Gas Company cannot ascertain the cost of the operation of any particular portion of its system.

MR. ARNOLD: I shall try to confine myself to the Affidavit, sir.

Q Mr. Smith, as I understand it these Affidavits of yours are filed on a notice of motion which Mr. McDonald has filed with this Board in which he asks first two things, and I just want to relate them to you and your reply in the Affidavit. The first one is the price to be paid for gas at the point at which gas enters the distribution system of any Municipality and as I understand your Affidavit your reason for saying it is impossible for the Gas Company to do that and the order should not be made is that from the books of the Company as kept it is not possible to ascertain the cost of operation of any particular portion of the gas system. Is that correct ?

A That is correct.

Q And I think you already told Mr. McDonald that insofar as your transmission lines are concerned that it is possible to make a breakdown of your capital expenditures in transmission lines as against your distribution system within any Municipality ?

A Quite correct.

Q And insofar as that phase of it is concerned there is no difficulty ?

A No difficulty at all.

Q And in reply to your operating costs as I understood you told Mr. McDonald the same thing, you could not break down your operating costs as against transmission lines as against the distribution system ?

A Transmission and distribution, yes.

Q And insofar as this first item is concerned there is no difficulty whatever insofar as the Gas Company is concerned in having an order go insofar as the costs, the capital costs of the operating costs of the transmission lines are concerned. You can give those ?

A Of the whole.

Q And insofar as the price you paid for gas at the point where it enters the distribution system of any Municipality is concerned it gets down to a question of what your cost is during your transmission service and what price you should be entitled to make for that service ?

A Yes.

Q And how you should distribute indirect expense, store and the shop expense which you have done ?

A No, we have kept the total of them.

Q So far as transmission is concerned ?

A Correct.

Q So there is no difficulty insofar as that item is concerned ?

A No difficulty at all, not in total.

Q That is all that is asked so far as the transmission system is concerned ?

A The total of the transmission, that is right.

MR. STEER: I would like to have that question repeated.

(Preceding question and answer is read)

Q MR. ARNOLD: Now I understand part of this transmission system is used for the purpose of repressured gas at Bow Island?

A Yes.

Q Is there any particular accounting in respect to Bow Island repressured gas segregated in other transmission operations ?

A The work done there is kept in a separate account.

Q And is the cost of transmitting allocated as between Bow Island repressured gas ?

A There is no charge for transmission.

Q There is charge for the cost of transmission. Now is there any other reason set forth in your Affidavit for the suggestion made by the Gas Company that you should not supply or that this particular item should not be included in the Agenda. That is the only point that the Gas Company makes so far as your Affidavit is concerned.

MR. STEER: The witness is not here to interpret the Affidavit. The Affidavit speaks for itself.

MR. ARNOLD: He swore it.

MR. STEER: Certainly he swore it.

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A Will you repeat your question?

Q MR. ARNOLD: You know what your Affidavit states and what I want to get clear is that the only point you are raising in your Affidavit as to the reason why this particular item should not be included in the agenda . . . . .

MR. STEER: Mr. Chairman, I repeat my objection and respectfully request your ruling as to whether this witness should be asked to interpret the Affidavit.

THE CHAIRMAN: He does not have to, Mr. Steer.

MR. ARNOLD: I am not asking the witness to interpret the Affidavit. But the witness has sworn to certain things and I can read them. I think he has read them. You have sworn to them and all I want to know is as far as I can see from the Affidavit the only statement you make in respect to this particular item and the reason for it not being included in the Agenda is that from the books of the company so kept it is not possible to ascertain the cost of operation of the transmission system and the operation of the distributing system.

MR. STTER: Now Sir, I took objection to that question and the Chairman rules that the witness need not answer. I ask that any answer be struck out.

THE CHAIRMAN: That is right.

Q MR. ARNOLD: All right, I will read you the Affidavit, Mr. Smith, and we will analyze every clause of it to see if there is anything else in your mind or in my mind when we read it.

"I, Frederick Ashbey Smith, ..."

THE CHAIRMAN: I am not going to let you do that. You can cross-examine on the Affidavit but do not read it all

over again.

MR. ARNOLD: If I am not going to be permitted to cross-examine on these statements as contained in the Affidavit I will sit down. Otherwise I propose to cross-examine him.

THE CHAIRMAN: You please yourself. But do not read the Affidavit. Cross-examine on it.

MR. ARNOLD: I am refused the privilege of reading Mr. Smith's Affidavit to him and I am refused the privilege of asking him to tell me if there is anything else in the Affidavit . . . . .

THE CHAIRMAn: I will shorten it up for you.

Q Did you read this Affidavit or have it read to you before you swore to it?

A I read it, yes.

Q Do you need to have it read to you again?

A I do not.

Q MR. ARNOLD: What are the principles laid down by the National Association of Railroad and Utilities Commissions Mr. Smith, in respect to bookkeeping?

A Mr. Arnold, I am sorry I have not the time to go into bookkeeping here.

Q It is not for you to say whether we have the time or not. I am asking you the question. You have made mention of this in your Affidavit.

A The principles?

Q Yes.

A They are the normal, usual principles of bookkeeping and explaining how certain items should be kept and how certain expenses should be charged, to make them uniform between Gas

Utilities. That is the basis of it.

Q There is no particular significance to it, then? It is just general bookkeeping practice?

A Yes.

Q THE CHAIRMAN: For a unit operation?

A For a unit operation of gas utility companies.

Q MR. ARNOLD: What is the difference between that system and the Pennsylvania Public Services System?

A I explained that earlier and said that there was no difference at all only there is a larger number of accounts in the N.A.R.U.C.

Q Do they break down the items differently?

A No, they just expand them a little more, where one has material-labour the other has capital and labour.

Q But in-so-far as the segregation of the lines is concerned there is no difference?

A No difference in capital accounts whatsoever.

Q You suggest it is necessary both in the National Association of Railroad and Utilities Commissions' system and the Pennsylvania Public Services' Commission system, they are both applicable to unit systems?

A Yes.

Q What difference would you require to be made,. do you suggest, in your Affidavit, to have the cost of individual items to be kept separate?

A I would have to have a cost-keeping department which would carefully distribute and would act as, shall we say a liaison department between the accounting department and the engineering department. They would have to keep careful check over every type of operation that the engineering

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department took.

Q And would it be exactly the same with respect to your transmission and distribution systems?

A Yes. But it would involve a terrific amount of work.

Q I suppose there is a terrific lot of work now as between the distribution system and the transmission system.

A Not really.

Q Now with respect to the second item that is suggested being added to the agenda you have not dealt with that item in your Affidavit at all, in respect of the nitrogen contract.

A No.

Q That is all, thanks.

Q MR. STEER: I am not sure, Mr. Smith, whether there was some misunderstanding between you and my friend, Mr. Arnold, but if there was I think we will have it cleared up. You told him that so far as capital costs were concerned they were divided as between transmission and distribution.

A Correct.

Q Now then do I understand you to say that what we might call a general overhead cost, other costs, were ever allocated to these two headings?

A Costs are checked as to operation, maintenance, transmission lines and distribution costs, but not allocated to any particular line.

Q MR. ARNOLD: I did not follow that. What do you mean by that? What I am trying to get at is this. You have a transmission system and a distribution system.

A That is right.

Q And in your system of bookkeeping, with all of its ramifications, you cannot pick out the capital invested and the

operating costs, as I suggest?

A That is right. I should say direct operating costs and there are a lot of other charges such as stores' expenses that are not distributed.

Q MR. STEER: Let us make it quite clear. Am I right in this that you have operation accounts and transmission accounts and distribution accounts?

A Yes.

Q And new business?

A Yes.

Q And general administration?

A Yes.

Q And other general costs?

A Yes, that is correct.

Q Now then what has been suggested here is that apart from transmission and distribution business the other items of costs are allocated back to transmission and distribution, is that so?

A No, that is not so and I have so informed Mr. Arnold. The stores' expense was not added back. Other general expense is not added back, only just bare direct costs.

Q Thank you, Mr. Smith.

THE CHAIRMAN: Do you wish to cross-examine, Mr. Brownie?

MR. McDONALD: Yes, Mr. Chairman.

.....

FRANK W. BROWNIE, Recalled, cross-examined by Mr. McDonald.

MR. BLANCHARD: May I ask a question in connection with this? My learned friend has taken the stand that in as much as this application is an application only of counsel for the producers that other counsel engaged in this Hearing are relegated to the position of just onlookers and have no right to cross-examine at all. It seems to me it is very important for other counsel to know whether this is a proper matter to be put on the Agenda because then they become very much interested and I want to know whether other counsel are not permitted to cross-examine.

THE CHAIRMAN: I ruled against Mr. Steer on that.

MR. BLANCHARD: Very well, sir.

Q THE CHAIRMAN: You are already sworn, Mr. Brownie?

A Yes.

Q MR. McDONALD: Mr. Brownie, you executed an Affidavit dated the 1st day of October, 1945, which has been filed?

A Yes.

Q Attached to that Affidavit as Exhibit "A" is a sketch of the transmission lines of the Gas Company.

A That is right.

Q Now I notice there are approximate distances marked. For instance, main line 174.2 miles. Are those fairly accurate distances. Is the ..2 fairly accurate?

A Yes, I should think it would be closer to being .2 than say .3 or .1, Mr. McDonald.

Q And looking at the sketch, I notice that the lines are running up to the boundaries of the municipalities, the circles which denote municipalities and then there are lines

off to the airport, for instance. The airports, I suppose, are outside the municipality?

A Yes.

Q Is the Alberta Nitrogen plant outside the City of Calgary, do you know?

A I believe it is, Mr. McDonald, but I am not certain at the moment.

Q Now in your affidavit you set out the year in which the different units of the transmission system were built.

A Yes.

Q And in which the original investment was made. Now you have attached to your Affidavit as Exhibit 2 a copy of the contract dated the 2nd day of August, 1941 and executed on the 29th of January, 1943.

A Yes.

Q Between the Gas Company and the Alberta Nitrogen Products Limited and I just want to deal with one itme on page 3. Paragraph (7). "The price of gas delivered under this agreement shall be seven cents (7¢) per thousand cubic feet (M.C.F.) Net as arrived at by the methods outlined in the previous clause, this price per M.C.F. however being contingent on the Royalite Oil selling gas to the Gas Company for the purpose of this contract at a price not exceeding 5.4 cents per M.C.F. for gas as delivered to the Gas Company and as measured at its Turner Valley station." Can you tell me if that price of 7¢ per thousand was paid and if Royalite got 5.4¢ of it?

A Yes.

Q And that was in force during the year 1944?

A Yes.

Q And you understand this contract is still in effect?

A We are still serving gas under the terms of that contract.

Q On simple arithmetic that means that the net return received by the Gas Company in respect of deliveries to the Alberta Nitrogen Products Limited is 1.6¢ per thousand cubic feet.

A Apart from any slight difference due to metering differences.

Q Yes, differences might arise in the adjustment of accounts in metering.

A Yes.

Q And if we turn to page 7 of this agreement, paragraph (a) there is set out in detail the composition of the natural gas supplied to the Nitrogen Company and the suggestion is made, as I read it, that the composition of the gas in the main be kept at near the detail set out in this paragraph.

A Yes.

Q That was the intention?

A Yes.

Q Has there been any request by the Alberta Nitrogen Products Limited to refine or change that composition of the gas?

A Not that I know of, Mr. McDonald.

Q Well what I had in mind was this, has there been any necessity for these scrubbing plant operations, as far as you know, being refined and more chemicals used and a more careful operation carried on than prior to this contract?

A I belive we have on one or two occasions had requests from the Nitrogen Company to discuss with the Royalite Company the possibility of avoiding a surge of sulphur that in the earlier years did I think occur once or twice. I do not recall anything like that in recent years.

Q That would be at the time deliveries were first made?

A Yes.

Q On page 8, paragraph (b), I find a reference "The pressure of the gas in the main of the Gas Company at the point where the gas is delivered into the Nitrogen Company's main will not be less than 75 lbs. per square inch gauge." Can you tell me, Mr. Brownie, whether that was a higher or a lower pressure than was being maintained in the main line prior to the entering into of this contract?

A It is lower.

Q This 75 pounds is lower than the operating pressures in the line in the vicinity of this plant prior to the contract?

A Yes.

Q Now the gas delivered under this contract, Mr. Brownie, is in addition to the sales to the other markets of the Gas Company.

A That is right.

Q And it is carried over and above the peak loads?

A What do you mean by that, Mr. McDonald?

Q This market does not vary. The Nitrogen Plant demand does not vary with the weather for instance.

A No.

Q It is a uniform demand.

A It is fairly uniform, yes.

Q The demand of the other customers, however, varies with the weather.

A That is right.

Q And this load is carried in addition to the peak load demand of other customers.

A It always has been.

Q That is up to the capacity of the system.

A Yes.

Q Now would it be fair to say or can you tell me what were the exact deliveries under this sytem in 1944, or under this contract rather in 1944?

A I cannot tell you very closely, Mr. McDonald. It is around 9 million a day, which would be between 3 and 3½ billion a year. I do not know any closer than that.

Q Well take 3 billion cubic feet in a year at 1.6¢, that would give you an approximate revenue, to the Gas Company, of $78,000 in a year for transmitting this gas.

A I do not agree with your arithmetic. I think it is $48,000.

Q Can you tell me, Mr. Brownie, how did the Gas Company arrive at this rate of net return of 1.6¢?

A I do not know how it was arrived at, Mr. McDonald.

MR. STEER: I would suggest, Mr. Chairman, that this line of cross-examination does not bear on the matter that is applied for.

THE CHAIRMAN: It is one I have been waiting for, Mr. Steer. You can pursue that, Mr. McDonald. However if Mr. Brownie does not know how it is fixed there is no use wasting time on it.

Q MR. McDONALD: No. Can you tell me this, Mr. Brownie, what are the increased costs of the Gas Company in handling this additional gas carried to the Alberta Nitrogen Company?

A Well I do not know the answer to that either, Mr. McDonald. It is a very difficult thing to determine.

Q What did you have in mind?

A Well it is not something you can sit down and take out of a set of books. It all depends on what basis you want it on. I suppose you are talking increment costs. It is very difficult to decide just how much your transmission line operation might be increased by the addition of this load, or your transmission line maintenance.

Q Well.....

A You would have to carry increased pressures probably on account of those, and that may cause a few more leaks, but how anybody could determine how many more I do not know.

Q Well, does it involve the employment of more labour, more line walkers for instance, more compressor men, - well you do not have compressor men?

A No. It involves operating our pipe line at higher pressures and, therefore, as a result of that, it would have a tendency to increase our costs.

Q I suggest to you the pressure would be supplied by the Madison compressors?

A Yes.

Q That would require no doubt more attention to detailed supervision of your transmission lines from Turner Valley to Calgary and I suggest to you that might mean the addition of one or two more helpers or engineers or something like that, in the nature of additional costs?

A I do not know offhand, Mr. McDonald. That would require considerable study. Of course that is not the only additional cost of course.

Q Do you think it would not involve the amount of seventy-eight thousand dollars a year?

A I do not think that figure is seventy-eight thousand, is it, Mr. McDonald, forty-eight thousand dollars.

Q Forty-eight thousand dollars?

A No, not any item would amount to forty-eight thousand dollars.

Q I am sorry, Mr.Brownie, I said seventy-eight thousand some minutes ago, and it should have been forty-eight thousand?

A Yes.

MR. McDONALD: I think that is all.

THE CHAIRMAN: Mr. Arnold?

.....

CROSS-EXAMINATION BY MR. ARNOLD.

Q Well now.....

MR. STEER: May I just, Mr. Chairman, place on the record the same formal objection which I did previously.

THE CHAIRMAN: Yes.

Q MR. ARNOLD: You said a moment ago in respect of compressors, it would require more compressors on account of the Alberta Nitrogen load, do you not get your gas from the Madison at a standard pressure, which has nothing to do with you?

A No, we do not get it at a constant pressure. The pressure varies over the year, depending on the load.

Q But they supply whatever pressure you require?

A They supply that pressure at the upstream side of the control gate, and it is regulated to whatever we require in our transmission line, depending on the load.

Q What do you do about it?

A We regulate it at the gate.

Q And that is a matter of turning, - where is this gate?

A At Turner Valley.

Q At the Madison plant?

A Yes, I believe it is regulated at the Madison plant now. We have gates at our station but I do not believe they are used to regulate the pressure.

Q Now this difference between what the gas costs from Royalite and what you get, the 1.6 cents, you said that was subject to fluctuation from meter readings?

A Yes.

Q Either up or down?

A Yes, the 1.6 is increased theoretically somewhat by a difference in measurement conditions.

Q Yes, and I think you have already told my friend that you had no way of knowing how that was arrived at, that 1.6?

A That is right.

Q As to what the costs were?

A That is right.

Q Do you know whether any breakdown was made to arrive at that figure?

A No, I do not think it was made in that way.

Q So so far as you are concerned, you have no way of helping us in telling us whether that is a just and reasonable price for the Alberta Nitrogen to pay or not?

A No.

Q The suggestion has been made in this motion now before the Board that that is one of the matters to be considered by this Board, whether that is a fair and just price for the gas, and you cannot be of any assistance to this Inquiry so far as that is concerned?

A Not at this moment, no.

MR. ARNOLD: That is all.

THE CHAIRMAN: Mr. Blanchard?

MR. BLANCHARD: No questions.

.....

CROSS-EXAMINATION BY MR. CHAMBERS

Q Just one question I would like to ask you, Mr. Brownie, the transmission system of the Gas Company is shown on the sketch which is made an exhibit to your affidavit, what gas is handled by that transmission system?

A Mainly Turner Valley gas.

Q And when you say "mainly", you mean?

A There is some Foremost gas most winters.

Q That is emergent periods?

A Yes.

Q TO DR. BOOMER: Is that contract in force?

A I do not think the contract is in force, Dr. Boomer, but we are still supplying gas as if it were.

Q Did you have anything to do with the negotiations leading to that contract?

A Yes.

Q Was there any idea that the 1.6 cents was related to increment costs?

A No, I do not think so.

Q And the increment costs have no meaning at all in this application, it cannot be determined by increment costs?

A It is practically impossible, I would say, Dr. Boomer.

Q One other question, the analysis given in this contract is of 1941?

A It would be of about that time.

Q Has there been any change in the analysis since then?

A I presume there has been some change. I have not examined that analysis recently.

Q You do not know the quantitive effect of the iso-butane recovery?

A No, I do not know that. with any degree of accuracy.

DR. BOOMER: That is all.

THE CHAIRMAN: Do you wish to add anything by way of argument to your motion, Mr. McDonald?

MR. McDONALD: Only this, Mr. Chairman, that I think the evidence brought out indicates that the transmission of the gas and the rate fixed for the transmission could have a bearing on the well-head price and by dealing with the price as suggested, there may be, and allowing the Gas Company to consolidate as it were its transmission costs with its distribution costs, it may be that the transmission costs are bearing a very unfair proportion of the distribution costs with the result that the price fixed at some other point in the system, that is at the municipality or at the outlet at which the gas reaches the consumer, would indicate a fair price and would mean that the distribution costs would be allocated to a portion of the Gas Company's sytem that they should not be apportioned to.

THE CHAIRMAN: That still raises the difficult question, Mr. McDonald, that if you segregate your transmission costs, you are going to have a different gas rate in every municipality.

MR. McDONALD: No, I do not think that necessarily follows.

THE CHAIRMAN: Well if it does not, if it does not, then I do not see the relevancy of the motion. The Gas Company would just carry on the way it has already done with a total

unit operation.

MR. McDONALD: Except this, and this is the point, that the principles which are applicable to the fixing of the rate for carrying gas, the same principles are applicable to the transmission of the gas, I mean any comparable type of transmission, that is main lines and large pipe lines, and I think it is only fair to the operators in the field that the rates for transmitting the gas up to the scrubbing plant and the price fixed there, that is the service price fixed to the utilities should be comparable to the same type of work as between the scrubbing plant and some other point, and now in order to arrive at whether it is just and reasonable, we should know what those costs are, and we should have this information from the books. They should be investigated and it would be absolutely unfair to fix a service rate between two items of transportation which are within the jurisdiction of the Board, and if these others are related, then the same principles should apply.

THE CHAIRMAN: Of course then that means you are going to introduce, you must necessarily introduce, the same type of utility as we have now in the case of say the Calgary Power where your distribution costs are allocated and will vary, and where every community pays a different rate, where the transportation cost has a substantial bearing on that rate.

MR. McDONALD: I am in this position, that in order to advise my clients as to what is fair and reasonable for them to pay, they should have an opportunity of investigating these other phases, I mean it is entirely new, we are entering a new field and breaking new ground and I do not see why there should

be any restriction on the information which should be made available when it is so closely related to our main point.

THE CHAIRMAN: Let us go a little further then, the Board did make an Order providing for the examination of the Gas Company's books by Mr. Hamilton in order to supply you with certain information for the preparation of your case.

MR. McDONALD: Yes.

THE CHAIRMAN: Now supposing the Board agrees that your motion is now one which should be granted and then Mr. Steer says "You have no right to order us to allocate our general costs as between transmission and distribution lines. You have jurisdiction over our transmission lines but you have none over our distribution lines and you have no right to ask us to allocate our costs," and would he not be perfectly proper in saying that to us?

MR. McDONALD: I do not know whether he would be proper or not, but under the Rules I think it is important to this Hearing.....

THE CHAIRMAN: Let us abolish the word "proper" and say would he not be legally correct in saying that?

MR. McDONALD: No.

THE CHAIRMAN: That we have no jurisdiction.

MR. McDONALD: I might agree with you, but then this Board would be in this position, the Board in the absence of evidence will have to make some kind of adjustment and will have to apportion the transmitting costs, I mean the Gas Company then will be simply in the position of leaving the matter to the discretion of the Board and it might be unfair to both the Gas Company and the Board and to everyone interested if that were done. I do not think that is a practical con-

sideration.

THE CHAIRMAN: Of course, do not forget, you are all carrying on this Hearing as it is were a lawsuit, every one of you.

MR. McDONALD: But I would like to get away from that, Mr.Chairman. You are breaking new ground, where we must have all the information relative to the gas business of this Province, not necessarily in the way of formal evidence, but of bringing in all things that result from it.

THE CHAIRMAN: Of course that is what Mr. Steer has been trying to do. Have you anything, Mr. Arnold, to say?

MR. ARNOLD: This application is one merely to add to the Agenda certain items so that they will be before the Board for discussion at some time during this Hearing. This Board is charged with the duty of fixing the price which is paid for gas by the Gas Company and by other individuals and the question what the Gas Company should pay for gas is wound up, as the Chairman has pointed out, in items over which this Board has no control, but that does not relieve this Board from fixing that price. Now if the Gas Company does not want to come before this Board and tell this Board what they should pay for it, then the Board is left in the position where they have to arbitrarily set that figure without relation to the Gas Company. The Gas Company has sat through all this Hearing, they have had the privilege of cross-examination, they have had the privilege of putting in submissions on various phases of it and now they say "We have nothing to do, you have nothing to do with us. After all we are under the jurisdiction of another Board", but this Board has a duty to fix the price they are to pay and I think the Chairman in

your recent judgment sets forth very clearly the problem which this Board is going to be up against in endeavouring to arrive at fair and reasonable prices to be paid, and one of those difficulties is the ability of the Gas Company to pay.

Now I think it is quite all right for the Gas Company to just sit back and say "Oh, we are under somebody else's jurisdiction, you cannot interfere with us ", but so far as the industry is concerned, and so far as this Hearing is concerned, they have a duty to get all the information they can and whether or not you can order the Gas Company to give it, I do not think that is relevant at all, but the thing is this, you see one of the things we are going to decide is what the price of gas is going to be at the City of Calgary or at some other point. Now unfortunately or fortunately this Board is charged with the fixing of it at the City of Calgary limits and, therefore, they have to take into consideration what happens between the scrubbing plant and Bow Island for instance.

(Go to page 3591)

Now if the Gas Company does not want to come and give the Board any information they can take whatever position they like about it, but I don't think this Board should close its eyes to it simply because the Gas Company says it will not do anything. That is one of the things we have to consider and we have to have it on the Agenda to deal with and if so then the Board cannot get the information or will have to get it somewhere else or they will have to proceed without it. But it is impossible to deal fairly with everybody unless everybody that deals with that gas is before this Board and the hearing is before it with respect to every phase of it that goes to make up the price. Here we are on an enquiry which is taking months and months and leaving our one item that when we are all through we will absolutely be in the position that the Board will have no evidence on which to determine the price to charge for gas at the city limits.

THE CHAIRMAN: Couldn't we fix the price of gas at the gate, at Turner Valley and still leave the Calgary price to be determined by the Utilities Board ?

MR. ARNOLD: Well this Board as I understand it has jurisdiction over the transmission lines. They might save even then if you did and say here we are going to do it at the scrubbing plant, now what is a fair and reasonable price to charge the Gas Company there, and the Gas Company does not tell you what profit they are making or the situation. You cannot arrive at what is a fair and reasonable price so far as they are concerned. You will have to guess as to what they shall get for what they are doing.

THE CHAIRMAN: I am considering the well head price, the wholesale price in Calgary.

MR. ARNOLD: And you very clearly put it in your judgment. It raises a tremendous number of factors and you have got to get down to what is just and reasonable for everyone concerned. Here is one of the main people who should be interested in this enquiry and they say you cannot touch us in this thing. I submit you can touch them and you can set whatever price you like at the scrubbing plant, but that is in my opinion not the way that should be dealt with if the Gas Company does not wish to make a submittal then others interested can make a submittal and the Board could act on that.

MR. CHAMBERS: Sir, my submission is that this transmission system of the Gas Company which is an Exhibit to Mr. Brownie's Affidavit is under the jurisdiction of this Board and is a Public Utility within the meaning of this Act and is not within the jurisdiction of the Board of Public Utility Commissioners. The reasons for that I mentioned the other day and that being so and if I am right in that, this Board is I submit the only one that can appraise the capital cost and arrive at a rate base of this transmission line and to deal with the operating expenses and Section 49 of this Act, sub-section 1 says:

> "The Board shall have power from time to time to appraise and value the property of any public utility whenever in the judgment of the Board it shall be necessary so to do for the purpose of carrying out any of the provisions of this Act".

I am going one step further. I say aside altogether from the question of fixing the charge the Gas Company is to be allowed for the transmitting of this gas, aside from that altogether if in the carrying out of its general functions of the Board in arriving at a fair well head price

that is necessary or relevant that the transmission costs be gone into, this Board I submit has power to deal with that aside from the question of fixing the Gas Company's rates for transmission.

Now, the Chairman, you, sir, have intimated this morning as you did on the application the other day that there was some difficulty by reason of the fact that this transmission line went to various Municipalities. Well in the first place I suggest that presents no greater difficulty for this Board than it would to the Public Utility Board because one Board or the other must deal with it and my understanding is now that the Public Utilities Board has dealt with the transmission lines as one investment and that the rate to Lethbridge and these various Municipalities are all tied in to the Calgary rate but aside from that I submit that the cost of transmitting gas from Turner Valley to all of these Municipalities is something that the Gas Company must be reimbursed for and that amount of reimbursement has to be passedupon by some Board and I submit that it is this Board.

Now that transmission system is going to handle so much gas, its total investment, carrying charges and total operating costs amount to so much and you can divide that by the throughput and you are going to get I submit a per m.c.f. cost of transmission and that per m.c.f. cost will be I submit of concern to the Gas Company some day and is of vital concern now to the people in Turner Valley and as to how this thing can be worked out. By the way I should say and I think it is clear from the evidence here that all these costs now are segregated except one thing, the general administration and operation of the stores department but I gathered from what

Mr. Smith says that material that comes out from the store is charged to certain things in the general distribution and transmission system. That those are not segregated. Now I submit that is not an insurmountable difficulty. Other Boards have met that situation. There is the instance in that in the Canadian River case and the Wyoming case which went to the Supreme Court of the United States on Appeals from Judgments which had to do with findings of and hearings before the Federal Power Commission and the question there came up that the Federal Power Commission's jurisdiction stopped due to a constitutional limitation and it could include only inter-state matters. On the other hand the matters of inter-state were within the State Public Utilities Act and the situation that presented itself there was that a large part of these systems were doing the jobs for both. And the Power Commission had to decide how it was going to make a division as between some costs that were competent to both. They did it and the Court reviewed their findings and in effect held it was reasonable. Now I submit that is just the same situation that is here.

MR. STEER: I doubt if I can add anything to what I said the other day, sir. My submission then was that the jurisdiction of the Public Utilities Board over the Canadian Western system were that of the Natural Gas Utilities Board left off. If the suggestion is correct that this Board has got the figures of the transmission charges from the scrubbing plant to the city limits, from the city limits to High River and from High River to the next point on and dividing that whole system into a number of different parts then in my submission that is something the legislature of this Province never intended to be done. That obviously what was intended was to exclude this Calgary system

from the jurisdiction of this Board and in my submission that has been done subject to this, that if a time arises in the future when these transmission lines have to be used as common carriers then that raises a point which will have to be considered by the Board in working out of the terms of Section 74 dealing with common carriers. Apart from that it would be an impossible situation as the Board of Public Utilities Commissioners say in Edmonton where you have got an absolute integrated system from production to consumption, if the Board of Public Utilities Commissioners have not absolute jurisdiction over that whole undertaking from production to consumption then it is an impossible situation.

THE CHAIRMAN: It has other difficult implications as well.

MR. CHAMBERS: That exact situation is not only in the United States but in the Federal Commission.

THE CHAIRMAN: There is another problem arising out of it. At the moment the Gas Company operates as a unit operation and I incline to the view that if it did not there are many places that could not afford to buy and pay for natural gas and if there has got to be a segregation of every section of the main pipe line in fixing the price of transmitting gas you are going to have a different price for every section and the smaller communities will not be able to pay it.

MR. CHAMBERS: I do not associate myself with that.

THE CHAIRMAN: That is an implication in your own argument.

MR. CHAMBERS: No I say there should be one per m.c.f. cost. I take the opposite view.

THE CHAIRMAN: Well we will think about it and in the meantime we will adjourn.

(At which time a short adjournment was taken)

MR. STEER: May I mention a matter Mr. Chairman. I obtained pursuant to Section 44 of the Natural Gas Utilities Act from a Judge of the Appellate Division leave to appeal from the Order which was made recently with respect to the Canadian Western books. That Order has been entered and security for costs has been lodged and in due course notice will be given as provided in the Order by the Applicant to all persons represented and appearing at this hearing.

Under sub-section 9 of Section 44, a stay of the execution of the Order may be granted by the Appellate Division or may be granted by the Board itself,-

"Every order of the Board shall go into effect at the time prescribed by the order, and its operation shall not be suspended by any such appeal to the Appellate Division unless otherwise ordered by the said Appellate Division, but the Board itself may suspend the operation of its order, when appealed from, until the decision of the Appellate Division is rendered, if the Board thinks fit."

I apply to the Chairman of the Board staying the operation of the order until the appeal has been determined.

THE CHAIRMAN: That application will be granted. Will you join in it too ?

MR. CHAMBERS: No I wish to speak on another matter.

THE CHAIRMAN: The application will be granted Mr. Steer. Is a formal order necessary. I would not think so.

MR. STEER: I perhaps had better take it out.

THE CHAIRMAN: The order is only evidence of what I have already said and that is already in the record .

MR. STEER: Except that record may not be before the

Appellate Division.

THE CHAIRMAN: It does not really matter if it is before them or not as long as we have made the order.

MR. STEER: Yes sir.

MR. CHAMBERS: So far as concerns that portion of the order relating to Royalite I, like Mr. Steer, would like to appeal to the Appellate Division on behalf of the Royalite. I am not applying for a stay for this reason. My sole object in lodging the appeal is to keep my right open if by any chance the final judgment of the Board is before the Court and I do not want to hamper the progress of the hearing but there is a matter of practical working out of the order that I would like to speak to. The order says,-

> "The Board therefore directs that Mr. Mercer submit to cross-examination with respect to any matters that are relevant to the subject of the present Enquiry".

Now I do suggest that the questions relevant they will come up as we go along but then the order does not particularize on the matter and in particular that he submit to cross-examination with relation to the operating costs submitted by Madison as compared with the actual operating costs of Royalite relating to those operations which are now carried on by Madison and with respect to the allocation of Royalite of costs common to all its operations before the severance of the cost division. Mr. Mercer will also be required to produce all of Royalite's books, financial statements and internal statements from which factual evidence may be secured for the purposes already mentioned. Now what I am getting at is this, I do not think it is the desire of the Board or Counsel that Mr. Mercer go into the box without any preparation and with a big pile of

books. That will take some time. I do suggest that if Mr. Fenerty and Mr. Steer who made this application would formulate for us a list of the questions they are going to ask or the material that they want, we can prepare it rather than bring all the books here. I am only suggesting that as a practical working out in the interests of expediency.

THE CHAIRMAN: That seems reasonable too without putting any restrictions on the right to ask further questions.

MR. CHAMBERS: Oh no, but at least as a starting point.

THE CHAIRMAN: What do you say Mr. Steer ?

MR. STEER: I was under the impression that the Board's accountant would go into those books and prepare statements of the same character as he has prepared for the year 1943 for five years.

THE CHAIRMAN: That I thought was the suggestion that was made at the conclusion of the argument and if it is satisfactory to everyone can be adopted. What do you say Mr. Chambers ?

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MR. CHAMBERS: I think that probably is the best way to work it out but this Order directs Mr. Mercer to do such a thing.

THE CHAIRMAN: That was the application that was made to me, Mr. Chambers, and I wrote my decision in the terms of the application.

MR. STEER: Probably that was the only way in which the application could have been made.

THE CHAIRMAN: Yes. If you can reach any solution such as that which is suggested it is suitable to the Board.

MR. CHAMBERS: I am quite satisfied that we can work it out.

MR. FENERTY: There were previous statements that were prepared and we want an opportunity of analyzing those.

MR. CHAMBERS: That raises a different matter.

MR. FENERTY: Those were part of the documents that were to be produced.

MR. STEER: Mr. Hamilton simply gave his findings with regard to one year but I would think if counsel wanted to go further and perhaps cross-examine on any particular document referred to by Mr. Hamilton, surely he must have the right to do that.

THE CHAIRMAN: I think that perhaps would be the simplest way of dealing with it and have Mr. Hamilton do with those items that which he has already done with the others and if there is any particular item on which further information is required, on which a witness should be called and on which a document should be produced, it can be done.

MR. CHAMBERS: This question of Mr. Hamilton presenting evidence to the Board, how is it going to get into the record?

THE CHAIRMAN: I presume he will produce a document and say "Here it is and here is what I have discovered."

MR. CHAMBERS: But he will have to be put in as a witness.

MR. HAMILTON: If the Board pleases, it will be recalled that we indicated we had statements for 1943 and I believe Mr. Fenerty's position was that he wished to see those and he would then determine whether he wanted to go further back or not. Now to go back beyond 1943 will take a great deal of time and effort, which counsel will no doubt take into account.

MR. FENERTY: There is a matter in connection with this application and in the forthcoming appeal that gives me some little concern. It arose out of Mr. Steer's objections to participation in the cross-examination by Mr. Arnold. It seems to me this is a matter which might have to be cleared up before the Appellate Division, perhaps, at the time when the appeal is heard, or if it is not done then it might have to be cleared up in a subsequent matter by this Board in the first instance and if that is quite satisfactory to all concerned that will be the end of it. If not, perhaps by further appeal.

THE CHAIRMAN: Or perhaps by the Legislature.

MR. FENERTY: This is the thing I had in mind. It does seem to me, and I was impressed by the Argument of Mr. Steer, that if this matter had been in Court this cross-examination would be before an officer of the Court and not be here. It does seem to me with this particular kind of Inquiry that it should be immaterial who launches an application if, as a result of the launching of that application, certain documents are made available to any party or to the parties making the application. It seems to me that necessarily all of that

material must be available to everybody interested in the Inquiry because otherwise we would, when we come to arguing the points involved, we are going to have counsel arguing about different sets of facts. We are not going to be discussing the same thing at all. If certain things and documents are available to one group and not to another by reason of the mere incident of who launches the application. In other words two men are arguing about a thing and one is discussing the properties of a cylinder and the other is replying to him and he is discussing the properties of tubing, they do not get very far in their argument and the Court might have some difficulty in finding whether they are talking about the same thing. That is the situation we are going to be confronted with here and I think it is absolutely essential that everybody who seeks to argue on this should have access to the same material.

THE CHAIRMAN: I made no ruling to the contrary, Mr. Fenerty.

MR. FENERTY: I was wondering if we are going to come to that point. Let us say for a moment for the sake of discussion if appeal is not successful and then ..... no, it will not come up in that particular one. I was thinking of, say our motion for instance. There has been an Order made that we have certain productions. Is there going to be any objection to those being available to others than those who made the application?

MR. STEER: I would not suggest it for a moment.

MR. FENERTY: That is what I was concerned with.

THE CHAIRMAN: Mr. Steer merely made the point that it was Mr. McDonald's application and that ordinarily that

cross-examination would have taken place before the Clerk of the Court and possibly other counsel would not be present and that I should not extend to other counsel the rights which they would not have if the cross-examination had taken place before the Clerk of the Court. I did not agree to that proposal of his at all.

MR. FENERTY: I got the impression that there might be a question of confining it to those who made the application.

THE CHAIRMAN: Then I would suggest that counsel who are concerned with this matter should have a discussion with Mr. Hamilton and make arrangements as to the information and the documents that they wish. Mr. Hamilton raised the point, Mr. Fenerty, that he has certain figures for 1943.

MR. FENERTY: Yes.

THE CHAIRMAN: And you asked for 1942 and 1943 but indicated that you might be satisfied after you had seen 1943 to omit 1942.

MR. FENERTY: Yes and you will remember also that I did not limit myself entirely to those years.

THE CHAIRMAN: I understand that.

MR. FENERTY: There is also the possibility of going further back than that but we start with 1943 and if we can get at the point we are after there is no reason why we should try and go on indefinitely. We will try to limit it as much as we can.

THE CHAIRMAN: All right, Mr. Blanchard.

MR. BLANCHARD: I will call Mr. Hamilton.

.....

ROBERT WINSLOW HAMILTON, having been duly sworn, examined by Mr. Blanchard, testified as follows:-

Q Mr. Hamilton, you are a Chartered Accountant?

A Yes sir.

Q Residing in Edmonton?

A Yes sir.

Q I believe you were engaged by this Board to make a study of the submissions made by the several companies interested in the matters before the Board and also to examine the books of the several companies and to make an examination of their accounting submissions in particular.

A My firm was so engaged, Mr. Blanchard. Most of the work has been done by myself.

Q As a result of your examination of the submissions and the books, you have prepared an accounting submission for the information of this Board.

A That is so.

Q That is contained, I think, in two volumes.

A Yes.

Q One of which is a volume setting forth your accounting and the other comments and explanations.

A That is so.

Q Now then possibly you had better begin by first of all putting in the two volumes, Volumes 1 and 2, of Mr. Hamilton's submission.

MR. HAMILTON'S SUBMISSIONS VOLUMES 1 and 2 are NOW MARKED EXHIBIT 124-1 and 2.

THE WITNESS: May I suggest that a supplementary submission that will be proffered in evidence this morning will be made part of the same Exhibit.

MR. BLANCHARD: Yes as we refer to them they will become

a part of this Exhibit. I do not know whether it would be more convenient to put them in as one or two exhibits.

THE CHAIRMAN: I think we will put them in as one exhibit. They were bound this way more for convenience than anything else. Really they are one exhibit.

MR. HARVIE: Part 1 and Part 2.

THE CHAIRMAN: Yes.

MR. CHAMBERS: And the Supplements will be part of the same exhibit.

MR. BLANCHARD: The Supplements will be put in in their proper place.

Q I think it would be as well if you would, so as to crystallize the work that you have engaged in, if you read your letter of transmittal that is found in Volume 1 of Exhibit 124.

A Our submission comprises two volumes, Volume 1 containing the accounting submissions and charts and Volume 2 containing explanatory matters in connection therewith. Our letter of transmittal is to be found at the front of Volume 1 and reads as follows. It is addressed to The Natural Gas Utilities Board.

"Gentlemen:

We have been instructed to appear before the Natural Gas Utilities Board in the enquiry presently to be held concerning the financial and other arrangements to be concluded regarding the general scheme for gathering, processing and transmission of natural gas in Turner Valley.

In that connection we have conducted a partial examination of the books of the Madison Natural Gas Co. Ltd., and the Royalite Oil Co. Ltd., and are arranging for a similar examination of the

"books of British American Gas Utilities Ltd. and British American Oil Co. Ltd. In addition, we have reviewed the accounting submissions of the various parties of the enquiry.

Our submission arising therefrom, is presented herewith in two volumes. Volume 1 contains some sixty-four accounting exhibits, and Volume II contains explanation and comments in regard thereto.

We have had an opportunity of collating financial and statistical data from various sources, and we have, therefore, conceived it our responsibility to present to the Board some indication of the financial significance of certain of the problems to be resolved. With that in mind we have made certain assumptions where necessary to the completion of computations. In so doing, however, we should like to emphasize that our purpose was not to indicate to the Board the particular solutions it might be felt it should adopt, but rather to afford an overall financial picture to which the various phases of the enquiry might be related."

In other words, sir, we felt that the Board should not be forced to deal with various principles and problems in the vacuum and we therefore attempted to lay before it an overall picture which might be defective in part but nevertheless would form some basis for general discussion. I might also point out at this juncture that a good deal of the factual and statistical material on which our submission has been made were prepared as long ago as 12 months and consequently, in a great many respects, variations will have developed by reason of the evidence which has been

adduced before this Board. That applies with particular force to the matter of the Madison rate base which perhaps will be the first matter to be dealt with.

Q Yes. Now we will deal first then with the Madison rate base and I think you start that with the submission of Mr. Hill, as amended by Exhibit 120. I think it is Exhibit 120.

A That is so, sir.

Q A statement made a few days ago.

A Before dealing with the topic of rate bases it might perhaps be well to read the opening pages of Volume 2 which set out in general form the scope of our over-all presentation, so that counsel might be aware of what is to follow. I am reading now from the first page of volume 2.

> "This report, comprising Volume II of our submission, is intended as explanatory comment respecting material submitted in the form of accounting statements and charts in the accompanying Volume I.
>
> The various matters subject to our review are dealt with in the following topical order:"

and there are 10 sections. The first section deals with Utility Company Rate Bases, commencing at page 2 of this Volume II and to it are related statements in Volume I, consecutively numbered 1 to 19. All our statements, I might mention parenthetically are prefaced WH to indicate that they are made by our firm and to distinguish them from statements on similar subjects that were prepared by other parties. The second section deals with Company Working Capital Allowances, commencing at page 11 and with it are associated statements WH 20-24. Section 3 deals with Utility Company Rates of Return, commencing at page 18 with

statements 25 to 36 associated. Section 4 deals with Volumes of Gas to be Gathered and Processed and the Determination of Rateable Volume for each purpose. Section 5 deals with Fuel Gas. Section 6, my comments with respect to Depreciation; section 7, an examination and comparison of Madison Operating Costs prepared on several bases. Section 8, a similar statement with respect to British American costs. Section 9, some material with respect to Operating costs and Results of Gas Well production and section 10 is the resulting Average Unit Costs of Scrubbed Gas.

In the case of topics concerning the utility companies we have dealt in each case, first with the Madison Natural Gas Co. Ltd., and then in turn with the British American Gas Utilities Limited. In most cases questions of principle are discussed primarily on the basis of the Madison Company's circumstances, and matters so developed apply inferentially to the British American company.

We understand no submission has been offered by Gas & Oil Refineries Ltd. with respect to gathering lines operated by it, or other matters; consequently we have not dealt with it on a utility footing and reference herein to its operations is confined to the effect of residue gas to be delivered by it to Madison."

With regard now to the particular matter of Utility Company Rate Bases.

"For the sake of discussion and in conformity with the companies' respective submissions, we have assumed the dates of December 31, 1943 in the case of Madison and December 31, 1944 in the case of British American, as the focal dates for rate base determination."

We now proceed to discuss the various

statements prepared by us in connection with the Madison Company's rate base. In order to save time I might suggest that we turn directly now to the statements because some of the explanatory comments contained in Volume II relate to material which is now somewhat obsolete, having been varied by fresh material. I would direct your attention then to Volume I containing statement WH 1, which is a presentation of certain alternative rate base determinations. Those figures in particular are varied and consequently I will ask you to turn from that now to statement WH 2, which next follows. We will advert in time to WH 1.

This statement WH 2 to which I now refer is a summary of appraised values based on reproduction costs new, less observed depreciation as originally it came to us in the first Hill appraisal. The sub-total in the centre of the page represents the gross and net valuation that was adopted by the Madison Company accountants in determining the depreciation and rate of return effective for their accounting submissions contained in M-9 of which I forget the Exhibit number. It was their primary presentation of accounting costs.

MR. CHAMBERS: I think it is Exhibit 79.

MR. MORRISON: Exhibit 79.

A Thank you. The remainder of this statement merely ties together that figure or those figures used by the Madison accountants for the figures contained in the Summary in the first edition of the Hill appraisal. I have prepared, over the weekend, a supplement to WH 2, to bring it up to date in the light of information which has since been brought before the Board. I propose now to deal with statement WH 2a which might be fitted into the volume at

the appropriate place. You will observe that the opening figure on WH 2a represents the sub-totals on WH 2, which again were figures taken by the Madison accountants as the starting point of their effective rate base for their costs calculations. To that has been added certain increases indicated by Mr. Hill in Exhibit 60, the gross valuation being $54,353 and the net $46,336. I might mention that this year these amounts are excluding the reduction in respect of the Girbotol advance royalty for the reason that our rate base calculations and also those of Madison exclude the Girbotol advance royalty which it was proposed should be dealt with on a separate footing entirely. Then there has been a deduction of an amount of $83,981 from the net valuation with no change in the gross in respect to the adjustments suggested in Exhibit 120, filed in the evidence of Mr. Stevens-Guille the other day.

(Go to page 3610)

Q Exhibit 120?

A Exhibit 120, yes. That reduces the net rate base on reproduction new less observed depreciation to $2,032,440.00 and I haveappended at the bottom of my statement a reconciliation of that figure with the final figures obtained from Mr. Stevens-Guille's exhibit 120, more for the purposes of reconciliation than anything else.

You will observe, of course, that the difference is made up of the exclusion of going value, working capital and the Girbotol advance royalties. That represents the first type of rate base determination which has been suggested and as I take it, the principle now suggested by the Madison Company.

If we turn now to Statement W-H-3.....

Q Mr. CHAMBERS: I wonder if I might interject, Mr. Hamilton, would you mind just for the purposes of the record explaining that difference of $47.00?

A I think the difference represents the difference between a straight 9% and something slightly different from that which Mr. Hill used in adding on what he thought was 9 cents, I have not checked that but I presume that to be it. I thought when we got that it was close enough.

Statement W-H-3 represents a rate base determination on an entirely different approach, it represents a summary of historical costs as they appear on the books of the Royalite Oil Company less the related reserves contained in those books as of December 31st, 1943. We have there total historical costs of one million, nine hundred and thirty-one thousand, approximately, with a depreciation of one million, one hundred and forty-one thousand dollars approx-

imately, giving a net book value of approximately seven hundred and ninety thousand dollars.

I will have a comment or two with respect to the contents of the historical cost in a moment.

MR.BLANCHARD: I think we had better, Sir, have a reference to this sheet 2-A which should be inserted with Statement 2 in the exhibit, and as long as it is understood that Statement 2-A now becomes part of the exhibit, that perhaps will be sufficient.

THE CHAIRMAN: Yes. There will be others of a like nature?

MR.HARVIE: How about 2-B, any comment on that?

THE CHAIRMAN: I suppose we come back to that.,We come back to that in its proper place, I suppose.

WITNESS: I have forgotten what 2-B is for the moment.

Q MR.BLANCHARD: 2-B is in relation to the Seaboard scrubbing plant?

A Oh yes, I am sorry, I should have dealt with that, that should be dealt with at the same point. I wonder, Mr. Blanchard, if you could hand me a set of the Supplementals. They are in the folder there on my desk.

(Documents handed to witness).

We have dealt then with 2-A. I would like to suspend dealing with 2-B for the moment and come back to it at a later point.

Statement W-H-3, as I have mentioned, is a summary of the historical cost and related reserves as appearing on the books of the parent company.

I have this to say about it in Volume

2. Statement W-H-3 is based on capitalized historical cost less recorded depreciation. In this connection we made a substantial test of the plant records of the Royalite Oil Company Limited, which have been maintained in sufficient detail to enable us, by comparison of the cost records with the appriasel report above mentioned, to satisfy ourselves that with minor exceptions, the total historical cost value and the total appraised value, less exclusions, relate to the same assets. A number of minor differences in this connection have been brought to the attention of the officials of the Company. In certain cases adjustments have been made in the books of the Royalite Oil Company Limited while in other cases items are to be referred to Messrs. Ford, Bacon & Davis for adjustment in the appraisal report if deemed appropriate.

And I take it that was the basis of the additions suggested by Mr. Hill contained in Exhibit 60.

A comparison of appraisal and capitalized historical gross valuations, reduced to a basis of equivalent assets, is presented in Statement W-H-8, from which it will be observed that the gross appraisal value exceeds gross capitalized historical cost by three hundred and eighty-two thousand, seven hundred dollars roughly, which will now read approximately four hundred and two thousand dollars.

We might now have a look at W-H-8. The purpose in preparing this statement, Sir, was to determine so far as possible the reasons for the rather substantial discrepancy that appeared to exist between the total appraised value according to Mr. Hill's report, of three million dollars, and the capitalized book costs of one million, nine hundred and thirty thousand dollars, and you will observe by

Statement 8, that approximately seven hundred and fifty thousand dollars of that difference can be specifically accounted for and represented by items which are included in the appraisal but which, we are satisfied, are not in the books. For example, there is the "Gas Sales Contract", which has now been superseded by the going value in a slightly different amount. "Working Capital", "Transportation Charges", "Construction Equipment Charges", which were not capitalized on the books. "Overhead Costs", that is the 9%. The "North Return Fuel Lines" which has since been deleted. The "Girbotol Advance Ryalty ", which is likewise dealt with otherwise. The "Initial Charging of Girbotol with Glycol and M.E.A." The chemical not being set up as capital assets, and minor sundry adjustments of nine hundred dollars. That reduces the original Hill figure of three million to two million three hundred thousand approximately, to which there has to be added an adjustment in respect of assets which were apparently omitted from the appraisal, - the figure appearing in the statement is thirty-four thousand odd, which should now read fifty-four thousand, three hundred and fifty-three.

Q Those were taken care of in Exhibit 6?

A That is correct.

Q THE CHAIRMAN: Give me that amount again?

A Now fifty-four thousand, three hundred and fifty-three. The thirty-four thousand figure represented the cost, according to thebooks, of the items which were deleted or omitted whereas the fifty-four thousand is the appraisal basis for the same assets, so we now wind up with a figure of four hundred thousand dollars, which is the difference in the total of the gross valuation which has not been accounted for, the most

natural explanation being one of a price difference between the time of construction and the time of valuation, that and other discrepancies there might be in the times and so forth. So much for that.

Q MR. BLANCHARD: And that is the difference between the historical cost and the reproduction new?

A It is that portion of the difference which we could not specifically put our finger upon.

Q Well that is essentially the difference, I mean your historical, the appraisal applies to the same assets as the historical cost ?

A Yes, but the appraisal valuation of three million dollars is approximately a million and one in excess of costs, but we know what seven hundred thousand of it is and four hundred thousand must be price and other considerations which we cannot specifically put our fingers upon.

Q Yes?

A Returning now to Page 3, and continuing with respect to general considerations concerning the historical cost approach:

Also in this connection we present in Statement 9 a tabluation of capital expenditures by years in comparison with the price index for Producer equipment as reported in the Canada Year Book.

We now turn to Statement 9, and we find a total historical cost of a million, nine hundred thousand dollars, broken down by years, by the year of acquisition or construction and contained in the first column, - and we have a summary below, which shows that of the million, nine hundred thousand approximately, one million three hundred thousand was constructed or acquired prior to the war approximately, and

six hundred thousand acquired or constructed since the outbreak of war roughly, and the percentage is sixty-eight per cent, and thirty-one per cent respectively.

It is to be borne in mind, of course, that the earlier years' additions are of less present weight due to the fact that depreciation would bear more heavily on earlier years and consequently in order to bring the annual year's additions into proper focus we have prepared a second column which breaks down the net depreciated value as of December 31st, 1943, per W-H-4, likewise by year's additions, and we find that the percentages change to approximately sixty per cent of pre-war construction as compared with forty per cent of war time construction.

It will be observed: That 68.62% of expenditures were incurred prior to the war as compared with 31.38% of war time expenditure. This relationship, however, is to be modified by the realization that earlier expenditures are subject to greater depreciation and, therefore, have correspondingly less weight.

That six hundred and sixty-three thousand approximately, or 47% of depreciated value relates to expenditures in years when this particular price index stood at 100 or higher as compared with the seven hundred and forty thousand approximately, or 53%, when the index was below the 100.

In other words, if we could assume, if we can assume that the year 1926 or again the year 1940 represented normal price levels, then approximately half the expenditure was paid in periods when the price level was below normal and practically half incurred when it was higher. The

particular price index which was taken was that for Producer equipment from the Canada Year Book, and there are several others which might have been suggested, but I do not think it changes the picture materially.

You will notice that there is no index set against 1943 or 1942, that is because at the time this was prepared the index had not been brought up beyond 1941, and I assumed that the price level in 1942 and 1943 was at least as high as it was in 1941.

Therefore it will be observed that approximately one-quarter, on depreciated value basis, of expenditures relate to costs incurred by Royalite in 1943, and in 1944 but related back to 1943 for transfer purposes, when costs were abnormally high.

I might say there by way of explanation, that in some cases Mr. Hill, you will recall, valued on the basis of complete construction, whereas construction was not complete and it was the responsibility of the Royalite Oil Company to complete construction in 1944, and he valued it as if construction had actually been made and completed.

Q Mr. Hamilton, in your column of "Net Depreciated Value" on Statement #9, which you have already referred to, that particular depreciation was taken on a throughput basis, accrued depreciation, I think?

A Yes.

Q That particular depreciation?

A Yes.

Q We have been dealing, however, with the historical cost less book depreciation?

A That is right.

Q So we have gone on really a step further in dealing, in referring to Statement 9 in that it deals with historical cost less the accrued economic depreciation on a throughput basis.

A Yes. The only purpose in providing this second column was to give effect to depreciation to some extent at least, to bring the earlier years into proper focus.

Q These figures as to the annual amounts expended in construction are taken primarily by you from thebooks of the Company?

A Correct.

Q And the ultimate result, that is on the depreciated value arrived at in the way we have mentioned, is that 59.93% of the construction is done prior to 1940, prior to the war, and 40.07% is construction which is at the higher price levels, that is since the war, since the beginning of the war, approximately?

A Yes, and if you will bear in mind that even in periods prior to the war these particular price indexes stood over one hundred it increases the proportion that was incurred at higher than normal price levels, if you accept that 1926 and 1940 were normal years.

Q All right, I interrupted you there.

A We have excluded there the historical cost and I am now reading again from Page 4.

We have excluded from the historical cost total an amount of $69,957.50, representing the approximate cost of installation charges in respect to gas gathering and other fixed assets removed in whole or in part. It is our view that these costs ought properly to be excluded for the reason that they do not qualify as "used and useful" at the time of coming under regulation.

Q How is that dealt with by Mr. Hill ?

A They would not be dealt with by Mr. Hill for the reason that the lines did not exist at the time he made his valuation.

Q Exactly so, it is not something that was put into Mr. Hill's valuation that you are not allowing.

A I did not get that.

Q It is not some asset that was put in Mr. Hill's appraisal that you say should not be allowed. It was omitted by Mr. Hill ?

A I can answer yes or no. It was not in Mr. Hill's valuation. I think the purpose of the Company in carrying those assets was by reason of some arrangement the Company had with the Income Tax officials when the line was removed, that is the taxable cost of the material has been deleted from the account and transferred to the new account and what has been called the intangible such as installation costs, representing labour and expense and in some cases sundry materials has been left in the old account and has been carried on as if they were something of value which in effect do not exist and it is a matter of arrangement between the Company and the Income Tax officers as far as I understand and our position was that the investment did not exist and the lines did not exist and we have removed them for that reason. Purely as a matter of reconciliation. We also submit a statement W.H. 10, reconciliation of the historical costs, which we used with that as it appears in the Royalite plant ledgers at the time of reconciliation. I do not think it has any particular significance but it might have to accountants now or later in trying to tie the figures up.

In the summary, I am referring now back to statement W.H. 3 which governs what we have been dealing with in the last few minutes and reading from page 4:-

"The total capitalized historical cost amounts to approximately $1,931,000.00 and the depreciated book value to approximately $790,000.00, reflecting the depreciation sustained on the books of the company at approximately $1,141,000.00 representing approximately 59.1%.

It is to be noted that the historical costs dealt with herein does not give full recognition to construction overhead, to which reference will be made later in this report."

Statement W.H. 3 is based upon the capitalized historical costs in the books of the company and if expenditure is not made will not be in the figure of $1,900,000 odd. If we might now turn to statement W.H. 4. We have another rate base determination suggested in which the gross valuation is that of historical costs as it was in the case next preceding, the change being solely with regard to the application of the depreciation. The depreciation applied in the next preceding demonstration was that appearing in the books of the company which incidentally arose from annual provision of 10% on all classes of assets, I believe except transportation equipment which were charged at 33 1/3% and naturally result in a very low book value.

We have now in the statement W.H. 4 taken the same gross valuations and endeavoured to reduce them to a net book value by the application of a depreciation formula or group of formulas which appear to us more appropriate than in the instant case. The procedure in this regard has been as follows and I am speaking now of depreciation. For gathering lines, compression systems and scrubbing plants, depreciation has been applied on a unit throughput formula, the factor for

the depreciation applicable to each year's capital expenditure being as follows; throughput from mid-year of construction to December 31st, 1943, divided by a nominator of the estimated reserve of the mid-year of construction for gathering lines and compression system throughput and reserves were calculated on a wet gas gathered basis and in the case of the scrubbing plant, throughput and reserve are on a scrubbing throughput basis.

In this connection we have adopted the following reserves as at January 1, 1944;

We had to assume some figure at this stage in our calculations and these are the assumptions we made. As to wet gas to be gathered as from January 1st, 1944, a reserve of 304 billion 800 thousand cubic feet. As to dry gas to be scrubbed as from that date 366 billion 700 thousand / Depreciation tables of wet gas gathered and scrubbed gas throughput are presented in statements W.H. 11 and W.H. 12.

I think it might be useful at this point to offer a few observations to explain -

Q MR. STEER: Mr. Hamilton, those figures I think you said 304, billion 800 thousand ?

A 304,800,000,000, thank you and 336,700,000,000. These two tables 11 and 12 are identical in form. The only difference being that 11 deals with wet gas and 12 with dry gas.

Q MR. HARVIE: Mr. Hamilton, just before you leave those two figures referred to by Mr. Steer, can you give me any reason why the estimate is more for dry gas to be scrubbed than for wet gas to be gathered ?

A Yes sir, because the Madison scrubbing plant will handle the volume of gas to be delivered by the B. A. and Gas & Oil Products

which it will not itself get. I am speaking of the Madison operation and it is to be expected it will scrub more gas than will emanate from its own system.

Now perhaps I ought to explain the procedure which we followed here. We have according to W.H. 3 some $563,000.00 as capitalized cost of gathering lines. Now these lines were installed at various times and are of different ages both from a physical viewpoint and also from the viewpoint of their economic life. We have therefore broken down the $563,000.00 total investment in gathering lines by years' additions and each years' addition has been depreciated separately.

Now turning to W.H.11, the depreciation table, we find on the extreme right a list of percentages. Each of these percentages is applicable to the years' additions indicated by the year as shown on the extreme left. This percentage in each case represents the proportion of the total throughput available as from that year that has been handled by December 31st, 1943. To be specific you will observe that gathering lines installed in 1937 are stated to be by December 31st, 1943, 33.7% depreciated. That is because the reserve available will be handled at June 1937 mid-year point was 459 billion of which by December 31st, 1943 there has been actually processed 155 billion and the proportion of one to the other is 33.7% and the same applies to the additions to the gathering line system and to the compressor system, each of which were separate depreciations, each years' additions calculated separately.

Now then with regard to the steam plant, electric plant and water station. Depreciation has been

applied on a thirty year straight line annual depreciation formula from the mid-year of construction for each years' capital expenditure. I might say that we departed from the throughput formula suggested for the other assets we have been considering on the advice of the Engineer appointed by the Board in whose opinion this class of asset we are now considering would hardly be likely to live out the life of the field. At least there would be adjustments and changes required.

For field office and general, fire truck, sundry fire equipment, residential quarters and warehouses. Depreciation has been provided on a straight line annual basis on a life from mid-year of construction to 1968.

For transportation equipment. Depreciation has been provided at reducing percentages of 25%, 20%, 20%, 20% and 15% on costs from the mid-year of acquisition. No provision has been made in the foregoing calculations for any salvage value.

Referring back now to W.H.4, the total depreciation resulting from the foregoing calculations amounts to approximately $528,000.00 or 27.3% which reduces the capitalized historical cost to a revised net value of approximately $1,403,000.00, as compared with the book figure of $1,900,000.00 of cost which is of course the same and a net book value of $790,000.00 approximately.

Statement W.H. 5 represents still another form of rate base determination and consists in taking the gross appraisal value suggested by Mr. Hill and applying to them instead of observed depreciation what you might call accrued depreciation on the same formulas as has just been suggested

as applicable to costs.

Specifically Mr. Hill's valuation gross of the gathering lines was $828,000.00 odd and we have depreciated that by 36.24352% which is the identical percentage which you find on W.H. 4 against that same item. The average percentage of depreciation so applied approximately 28% and reduces Mr. Hill's valuation from a gross of $2,500,000.00 to net value of $1,800,000.00 and at this point I would like to introduce -

MR. BLANCHARD: 5-A.

A Document 5-A, which represents an extension of these calculations to take into account the evidence introduced in Exhibit 60 and again in Exhibit 120. Those Counsel who received copies through the mail will note three typographical changes which I will refer to in reading down.

Exhibit W.H. 5-A starts off with the final figures as appear in Statement W.H. 5 and then we add Mr. Hill's gross adjustment of $54,353.00 for the items which were omitted from his appraisal and for sundry adjustments which rather than depreciate separately I have reduced by the average percentage of 27.98% to result in a net book value of $39,000.00 which has then to be added to give a net book value of $1,389,000.00 approximately and then a further adjustment is made with respect to the obsolescence which might be deemed to be associated with the Seaboard plant. The Seaboard plant of course has already been depreciated for wear and tear with the scrubbing plant of which it comprises a part. The relevant percentage being 20.09808 and the question now arises as to what further depreciation should be applied to the Seaboard to take into account the past additional functional depreciation which was suggested in evidence. The statement therefore represents further

deductions from Seaboard's valuation for obsolescence in excess of depreciation already allowed in W.H. 5. The total depreciation and obsolescence taken together appear in Exhibit 120 and worked out if you care to check it at 55.8%. There has already been deducted depreciation in W.H. 5 against the whole scrubbing plant and this figure should now read 20.1% so that it might be argued that there is a further 35.7% to be deducted in respect to that part of depreciation which is not recognized within the confines of wear and tear and action of elements. If you apply that additional 35.7% to the amount involved $466,951.00 you arrive at a further deduction of $166,702.00 which brings the net value down to $1,700,000.00 approximately.

Q MR. STEER: You say you have made some changes in that statement ?

A If you received them through the mail the figures 35.7 and 20.1 are just transposed, that is all.

Q MR. HARVIE: But in the figure $166,702.00 that is on the basis of 35.7 ?

A Yes sir.

Q MR. BLANCHARD: And the bottom 20.1 should be 35.7 ?

A Yes. And now that we are dealing with the Seaboard it might be appropriate to introduce supplement statement W.H.2-B which deals with the Seaboard. You will recall that under cross-examination by Mr. Blanchard of Mr. Stevens-Guille, he estimated that the additional cost of continuing to operate the Seaboard as opposed to a straight Girbotol operation was on the order of seven to eight thousand dollars per annum. I rounded that out to $7500.00 and again an assumption as to service life of 25 years, and I assumed an interest rate of 8½% and on the basis

of those three assumptions it might be argued that the Seaboard plant should be further reduced by $76,740.00 which represents the present value of an annuity of $7500.00 per annum for 25 years discounted at 8½%. The lower the rate of interest assumed of course the higher that deduction becomes, and the higher the rate of return assumed the less important the difference becomes.

Now in Statement WH 6 we find still another rate base determination.

Q MR. BLANCHARD: May I ask you a question Mr. Hamilton. Is that suggested figure of $76,740.00 capitalized annually, the additional cost of operating the Seaboard. Is that carried forward into all of your suggested bases of rate base ?

A I will deal with that sir in the summary of the various rate bases proposed. It is not inherent in this adjustment of $166,000 in WH 5-A. It is not in that.

Q It is not in that ?

A No sir.

(Go to Page 3626)

A I mentioned a few minutes ago that in taking the historical costs in previous statements we took only the cost as it appeared in the books, yet ; I consider that we must recognize that there are elements of cost which do not appear in the historical costs and capitalized in the book and this statement WH 6 is an attempt to give recognition to those elements of costs which although they were elements of costs do not so appear to be in the books of the company. In particular, the amount of $1,930,000 historical costs, that is one that we have been dealing with, there is added $14,000-odd for what I call M.E.A. charges to the scrubbing plant and $34,000 for transportation and construction equipment charges which were not capitalized by the company so far as we were able to determine but were expensed and $178,153.99 representing general overhead on the order suggested by Mr. Hill, making a total adjusted historical cost of $2,158,000 approximately. I want to make this quite clear, that the amount which appears in the books of the Royalite Oil Company as the historical cost of these assets from the submission was $1,900,000 but that it might be suggested that these additional amounts might have been actually spent by the Royalite Oil Company but they were not included in the plant costs in such records. Now then when you take this adjusted historical cost of $2,157,000 and reduce it by depreciation the question arises whether or not salvage should be taken into account. At the time that we were making those submissions we allowed for assumed salvage percentages of 5 per cent on gathering lines, compressor systems and the scrubbing plant and 10 per cent for the steam plant, electric plant and water station. The allowance of this salvage value reduced the amount of the

cost which is subject to depreciation and therefore increases the net value as at the date of the base determination and not the reverse as one might think at first glance. Specifically with regard to the gathering lines the total adjusted cost of $624,348 with the 5 per cent salvage allowance would leave around $593,000 which is subject to depreciation. To that there has been applied a rate of 36.24 approximately which is the same percentage as arose in connection with the previous statement and arises from the throughput formula resulting in a depreciation of $214,000 and a net value of $409,000. Over-all you get a net value on this basis of adjusted historical costs less revised accrued depreciation of one million six, approximately as compared with one million four, if you take the historical cost less accrued depreciation without regard to salvage.

MR. STEER: I wonder if you would tell us where you get the 36.24352.

A The 36.24352 to which Mr. Steer refers, I take it he is reading from the top line of statement WH 6 and is the percentage of depreciable cost to be allowed on the depreciation of gathering lines.

Q And where do you get that figure?

A That figure is taken from WH 4, line 1. It is the same percentage. WH 4, the first line, gives the gathering lines and exactly the same percentage, that is where it came from.

Q And where do you get it so as to carry it into WH 4? Has it any relation to WH 11?

A Yes sir. But if you will recall on WH 11 you have a series of percentages which represent the depreciation percentage applicable to each year's additions. Then there is the

working papers showing the gathering lines by years of acquisition with the proper percentage applied against them and it works out to an average percentage of 36.24352. That information is available if you wish it. But 36.24 is the average percentage applicable to gathering lines or to express it in another way you might say the average age of the gathering lines indicate an origin of January 1937.

Q MR. BLANCHARD: And is based on WH 11.

A - It is based on that principally sir. The working papers are available. Now if the salvage values are to be ignored, the computation contained in WH 5 - pardon me, WH 6 and again in WH 7 to which we have not yet referred, will be varied to the extent of about 33 or 34 thousand dollars as set out in the supplement WH 6a which deals solely with the adjustments necessary if salvage values are to be ignored. These are approximations. I have not worked them out to any refined degree.

Q THE CHAIRMAN: That figure would be added to your one million six?

A It will come off the one million six. It is just the opposite to what you would expect. Specifically in connection with gathering lines, you will observe on WH 6 that the total adjusted cost amounts to $624,348.41 on which the salvage estimate of 5 per cent would amount to $31,217. Now when you allow for salvage in calculated depreciation, what in effect you do is to chop off 5 per cent of the original value and say that does not depreciate. It stays there in tact until the maturity of the investment, whereupon that amount is expected to be realized. If therefore salvage values are to be ignored, then the whole original investment is to be

depreciated and subsequently there is a further sum in connection with gathering lines of $31,217 to be depreciated and if you apply a rate of approximately 36% would in fact increase the depreciation $11,238. Dealing similarly with other assets you arrive at a further amount of $33,800 approximately of depreciation which is still to be provided and which therefore comes off the net value.

Statement WH 7 represents a very slight variation of WH 6 to represent more of a concession to a principle to which I feel the Board may wish to give some consideration. The change has to do with certain types of assets which are separable from the main project and which have a demonstrable market value. With regard to assets of that kind it appeared to us right and proper that appraisal values should govern, for the reason that Royalite could have withheld those assets from the transfer which it made to its subsidiary the Madison and could have told Madison "All right, you go out and buy such assets," in which case the cost would have been approximately what Mr. Hill suggests. Therefore statement WH 7 is identical with WH 6 with respect to gathering lines, the compression system, scrubbing plant and steam plant and electric plant and water station but differs with respect to such items as field, office equipment and furniture, transportation and fire equipment altogether in an amount of $24,000 gross, which results in a net book value of a very few thousand dollars more than that reflected in WH 6. WH 7 gives $1,607,000 as compared with $1,603,000 approximately in WH 6. If salvage values are to be ignored for depreciation purposes then the same adjustment of $33,800 is required to be made.

Now, sir, if we might come to the supplemental statement WH 1a we have brought together here all the various rate base determinations we have been discussing and some others which represent slight adjustments thereof. The first 4 have a starting point in reproduction cost new. The next 2 are based on historical costs and the last 4 on adjusted historical costs. The first under reproduction cost new is that dealing with Mr. Hill's observed depreciation method and varied by Exhibit 60 and Exhibit 120 and results in a net rate base of $2,032,440. I should interject here that these are exclusive of going values, advance Girbotol royalty and working capital as indicated in the heading. Now if you apply the adjustment of $26,000 contained in Exhibit 2(B) to be referable to the excess cost of operating the Seaboard you will reduce the valuation to $1,955,700. Both of those are based mainly on observed depreciation. Then if we take reproduction costs new and deduct accrued depreciation on throughput and other formulae and taking into account obsolescence on the Seaboard, the value drops to $1,700,000 approximately. Then if you further reduce that by the $76,000 for excess future operating costs of the Seaboard you are down to $1,623,542. If you switch over now from reproduction cost new as a starting point to historical cost and deduct from that total the depreciation sustained on the books of the company the net book value is $789,649. If you discard the book depreciation and take the same historical cost and recompute the depreciation on revised formula, the resulting net value is one million four. If you give recognition now to the exclusion of certain costs which might have been capitalized

but that were not and then add them back into the historical cost and apply against that the adjusted historical cost on the revised depreciation you get $1,603,000 approximately. That was on the basis of assuming certain salvage values. If you disregard salvage values, the net value drops again by $33,800 to $1,569,000 and then if you substitute for historical cost less accrued depreciation for certain minor things such as trucks and those minor items that we have been discussing, we get $1,607,000. If we take into account depreciation and salvage on the remaining assets or if you ignore salvage, you get $1,573,000.

Q MR. BLANCHARD: I believe you have prepared a memorandum for the Board in which you indicate your opinion as to which of these rate bases is most fair to the companies concerned and to the consumer. Would you read that?

MR. CHAMBERS: I would like to take formal objection to this evidence. I think that is a matter for the Board and not for a chartered accountant.

THE CHAIRMAN; But we will be glad to have his opinion.

MR. BLANCHARD: I would not like to split this up and it is now nearly one o'clock.

MR. CHAMBERS: Yes, and we would like to have an opportunity of seeing that because we will probably have to deal with it tomorrow.

MR. BLANCHARD: Yes, copies have not gone out yet.

A No sir.

MR. BLANCHARD: Then we will distribute them.

(At this stage the Hearing was adjourned until 9.30 A.M. 10th October, 1945.)

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